



Financial Section

A MESSAGE FROM THE CHIEF FINANCIAL OFFICER



Reflecting our high standards in financial management at SSA, we have just received our 15th consecutive unqualified financial statement audit opinion for FY 2008. The unqualified opinion attests to the fair presentation of our financial statements, and demonstrates the discipline and accountability essential to our responsibilities as stewards of Social Security funds.

Additionally, our *FY 2007 Performance and Accountability Report* received the Certificate of Excellence in Accountability Reporting from the Association of Government Accountants for the 10th time. We are proud that SSA has received this award every year since its inception.

We also received an unqualified opinion from our auditors on our assertion that SSA's internal control over financial reporting was operating effectively during FY 2008. Not only did our auditors agree with our assertion that SSA's

internal controls are sound, but they determined that SSA had no material weaknesses or significant deficiencies. We are proud of our many testing programs that we rely on to ensure the soundness of internal controls. For example, our Financial Management Systems Review Program tests the general and application-specific information technology controls of our major programmatic and financial systems to ensure they are designed and operating effectively. Our Management Control Review Program ensures that our operational components are in compliance with our administrative, operational, and security (both logical and physical) policies. Also, in response to Office of Management and Budget Circular No. A-123, Appendix A, we developed testing programs to ensure the controls in our financial statement reporting process are working correctly.

In FY 2008, we maintained "green" scores for both status and progress on the President's Management Agenda Improved Financial Performance initiative. Building on past accomplishments, we integrated additional financial systems with our existing accounting system, the Social Security Online Accounting and Reporting System. The integration of these systems allows us to validate data and check funding from source applications in real-time, thus eliminating errors, increasing the integrity of accounting data, and providing

more timely information to managers. We also continued planning the implementation of an improved cost accounting system, which will provide more user-friendly access to information necessary to manage and account for resources and enhance decision-making.

At SSA, we are committed to building upon our tradition of responsible management of the programs entrusted to us. We strive to uphold the highest standards of integrity in discharging our fiduciary responsibilities to our fellow Americans.

Many SSA employees contribute to our goal of providing timely and reliable information to Congress and the public, and I would like to acknowledge their efforts. Our employees share a deep commitment to sound fiscal stewardship and finding better ways to deliver services that meet the changing needs of the public. We will continue to do all that we can to provide the best quality service in the coming years.

Mary Glenn-Croft

Mary E. Glenn-Croft
Chief Financial Officer
November 7, 2008

FINANCIAL STATEMENTS AND ADDITIONAL INFORMATION

The agency's financial statements and additional information for fiscal years (FY) 2008 and 2007 consist of the following:

- The **Consolidated Balance Sheets** present as of September 30, 2008 and 2007, amounts of economic benefits owned or managed by the Social Security Administration (SSA) (assets) exclusive of items subject to stewardship reporting, amounts owed by SSA (liabilities), and residual amounts retained by SSA, comprising the difference (net position). A Balance Sheet by Major Program is provided as additional information.
- The **Consolidated Statements of Net Cost** present the net cost of operations for the periods ended September 30, 2008 and 2007. SSA's net cost of operations includes the gross costs incurred less any exchange revenue earned from activities presented by SSA's major programs. By disclosing the gross cost and net cost of the entity's programs, the Consolidated Statements of Net Cost provide information that can be related to the outputs and outcomes of programs and activities. A Schedule of Net Cost is provided to show the components of net cost activity as additional information.
- The **Consolidated Statements of Changes in Net Position** present the change in net position for the periods ended September 30, 2008 and 2007. Net position is affected by changes to its two components: Cumulative Results of Operations and Unexpended Appropriations. The statement format is designed to display both components of net position separately to enable the user to better understand the nature of changes to net position as a whole. A Schedule of Changes in Net Position is provided to present the change in net position by major programs as additional information.
- The **Combined Statements of Budgetary Resources** present the budgetary resources available to SSA, the status of these resources, and the outlay of budgetary resources for the periods ended September 30, 2008 and 2007. An additional Schedule of Budgetary Resources is provided as Required Supplementary Information to present budgetary resources by major programs.
- The **Statement of Social Insurance** presents the actuarial present value for the 75-year projection period of the Old-Age and Survivors Insurance (OASI) and Disability Insurance (DI) future income and cost expected to arise from the formulas specified in current law for current and future program participants. The difference between these values is presented, both including and excluding the value of the combined OASI and DI Trust Fund assets at the beginning of the period, in order to provide an indication of the program's financial status.
- The **Required Supplementary Information: Social Insurance** presents required long-range cashflow projections, the long-range projections of the ratio of contributors to beneficiaries (dependency ratio), and the sensitivity analysis illustrating the effect of the changes in the most significant assumptions on the actuarial projections and present values. The financial and actuarial disclosures are accompanied by a narrative describing the program, how it is financed, how benefits are calculated and an interpretive analysis of trends revealed by the data.

**Consolidated Balance Sheets as of
September 30, 2008 and 2007
(Dollars in Millions)**

Assets	2008	2007
Intragovernmental:		
Fund Balance with Treasury (Notes 3 and 4)	\$ 6,949	\$ 6,146
Investments (Note 5)	2,367,138	2,182,091
Interest Receivable, Net (Note 5)	29,112	27,727
Accounts Receivable, Net (Note 6)	425	451
Total Intragovernmental	2,403,624	2,216,415
Accounts Receivable, Net (Notes 3 and 6)	8,931	8,017
Property, Plant, and Equipment, Net (Notes 3 and 7)	2,121	1,892
Other	4	5
Total Assets	\$ 2,414,680	\$ 2,226,329
Liabilities (Note 8)		
Intragovernmental:		
Accrued Railroad Retirement Interchange	\$ 3,937	\$ 3,802
Accounts Payable	8,044	7,656
Other	256	227
Total Intragovernmental	12,237	11,685
Benefits Due and Payable	73,127	69,938
Accounts Payable	423	372
Other	1,401	1,263
Total Liabilities	87,188	83,258
Net Position		
Unexpended Appropriations-Earmarked Funds (Note 9)	54	57
Unexpended Appropriations-Other Funds	1,724	2,222
Cumulative Results of Operations-Earmarked Funds (Note 9)	2,325,293	2,140,617
Cumulative Results of Operations-Other Funds	421	175
Total Net Position	2,327,492	2,143,071
Total Liabilities and Net Position	\$ 2,414,680	\$ 2,226,329

The accompanying notes are an integral part of these financial statements.

**Consolidated Statements of Net Cost for the Years Ended
September 30, 2008 and 2007**
(Dollars in Millions)

	2008	2007
OASI Program		
Benefit Payments	\$ 505,221	481,026
Operating Expenses (Note 10)	3,379	3,099
Total Cost of OASI Program	508,600	484,125
Less: Exchange Revenues (Notes 11 and 12)	12	9
Net Cost of OASI Program	508,588	484,116
DI Program		
Benefit Payments	104,103	97,410
Operating Expenses (Note 10)	2,700	2,560
Total Cost of DI Program	106,803	99,970
Less: Exchange Revenues (Notes 11 and 12)	30	8
Net Cost of DI Program	106,773	99,962
SSI Program		
Benefit Payments	38,349	34,142
Operating Expenses (Note 10)	3,132	3,117
Total Cost of SSI Program	41,481	37,259
Less: Exchange Revenues (Notes 11 and 12)	297	261
Net Cost of SSI Program	41,184	36,998
Other		
Benefit Payments	10	8
Operating Expenses (Note 10)	1,844	
Total Cost of Other Program	1,854	1,697
Less: Exchange Revenues (Notes 11 and 12)	8	6
Net Cost of Other	1,846	1,691
Total Net Cost		
Benefit Payments	647,683	612,586
Operating Expenses (Note 10)	11,055	10,465
Total Cost	658,738	623,051
Less: Exchange Revenues (Notes 11 and 12)	347	284
Total Net Cost	\$ 658,391	\$ 622,767

The accompanying notes are an integral part of these financial statements.

**Consolidated Statements of Changes in Net Position for the Years Ended
September 30, 2008 and 2007
(Dollars in Millions)**

	2008		2007	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances				
Earmarked Funds	\$ 2,140,617	\$ 57	\$ 1,954,921	\$ 57
All Other Funds	175	2,222	(161)	1,614
Beginning Balances, Total	\$ 2,140,792	\$ 2,279	\$ 1,954,760	\$ 1,671
Budgetary Financing Sources				
Appropriations Received				
Earmarked Funds		17,840		19,335
All Other Funds		43,847		40,334
Other Adjustments				
Earmarked Funds		(10)		(9)
All Other Funds	0	(56)	0	0
Appropriations Used				
Earmarked Funds	17,833	(17,833)	19,326	(19,326)
All Other Funds	44,289	(44,289)	39,726	(39,726)
Tax Revenues-Earmarked Funds (Note 13)	671,182		647,387	
Interest Revenues-Earmarked Funds	115,105		108,457	
Transfers In/Out Without Reimbursement				
Earmarked Funds	(5,247)		(6,268)	
All Other Funds	6,957		6,652	
Railroad Retirement Interchange-Earmarked Funds	(4,184)		(4,068)	
Net Transfers In/Out				
Earmarked Funds	(9,431)		(10,336)	
All Other Funds	6,957		6,652	
Other Budgetary Financing Sources-				
Earmarked Funds	83		69	
Other Financing Sources (Non-Exchange)				
Transfers In/Out-All Other Funds	0		(17)	
Imputed Financing Sources-				
All Other Funds (Note 14)	496		541	
Other				
Earmarked Funds	0		(119)	
All Other Funds	(3,201)		(2,887)	
Total Financing Sources				
Earmarked Funds	794,772	(3)	764,784	0
All Other Funds	48,541	(498)	44,015	608
Net Cost of Operations				
Earmarked Funds	610,096		579,088	
All Other Funds	48,295		43,679	
Net Change				
Earmarked Funds	184,676	(3)	185,696	0
All Other Funds	246	(498)	336	608
Ending Balances				
Earmarked Funds	2,325,293	54	2,140,617	57
All Other Funds	421	1,724	175	2,222
Total All Funds	\$ 2,325,714	\$ 1,778	\$ 2,140,792	\$ 2,279

The accompanying notes are an integral part of these financial statements.

**Combined Statements of Budgetary Resources for the Years Ended
September 30, 2008 and 2007
(Dollars in Millions)**

	2008	2007
Budgetary Resources (Note 15)		
Unobligated Balance, Brought Forward, October 1	\$ 3,146	\$ 1,791
Recoveries of Prior Year Unpaid Obligations	619	485
Budget Authority		
Appropriation	864,648	832,560
Spending Authority from Offsetting Collections		
Earned		
Collected	4,429	3,984
Change in Receivable	1	9
Change in Unfilled Customer Orders		
Advance Received	19	348
Expenditure Transfers from Trust Funds	9,835	9,364
Subtotal	878,932	846,265
Nonexpenditure Transfers, Net	189	274
Temporarily Not Available Pursuant to Public Law	(183,086)	(183,870)
Permanently Not Available	(68)	16
Total Budgetary Resources	\$ 699,732	\$ 664,961
Status of Budgetary Resources (Note 15)		
Obligations Incurred		
Direct	\$ 692,452	\$ 657,824
Reimbursable	4,420	3,991
Subtotal	696,872	661,815
Unobligated Balances		
Apportioned	1,015	2,802
Unobligated Balance - Not Available	1,845	344
Total Status of Budgetary Resources	\$ 699,732	\$ 664,961
Change in Obligated Balance		
Obligated Balances, Net		
Unpaid Obligations, Brought Forward, October 1	\$ 76,729	\$ 73,058
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	(2,284)	(2,069)
Total Unpaid Obligated Balance, Net	74,445	70,989
Obligations Incurred, Net	696,872	661,815
Gross Outlays	(693,032)	(657,659)
Obligated Balance Transferred, Net		
Recoveries of Prior Year Unpaid Obligations, Actual	(619)	(485)
Change in Uncollected Customer Payments from Federal Sources	(238)	(215)
Obligated Balance, Net, End of Period		
Unpaid Obligations	79,950	76,729
Uncollected Customer Payments from Federal Sources	(2,522)	(2,284)
Total Unpaid Obligated Balance, Net, End of Period	\$ 77,428	\$ 74,445
Net Outlays		
Net Outlays		
Gross Outlays	\$ 693,032	\$ 657,659
Offsetting Collections	(14,045)	(13,491)
Distributed Offsetting Receipts	(21,198)	(22,400)
Net Outlays	\$ 657,789	\$ 621,768

The accompanying notes are an integral part of these financial statements.

**Statement of Social Insurance
Old-Age, Survivors and Disability Insurance
as of January 1, 2008
(In billions)**

Estimates from Prior Years

	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u> unaudited	<u>2004</u> unaudited
<i>Actuarial present value for the 75-year projection period of estimated future tax income received from or on behalf of: (Note 17)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	\$18,249	\$17,515	\$16,568	\$15,290	\$14,388
Have attained retirement eligibility age (Age 62 and over)	542	477	533	464	411
Those expected to become participants (Under age 15)	17,566	16,121	15,006	13,696	12,900
All current and future participants	36,357	34,113	32,107	29,450	27,699
<i>Actuarial present value for the 75-year projection period of estimated future cost for or on behalf of: (Note 17)</i>					
Current participants who, in the starting year of the projection period:					
Have not yet attained retirement eligibility age (Ages 15-61)	29,021	27,928	26,211	23,942	22,418
Have attained retirement eligibility age (Age 62 and over)	6,958	6,329	5,866	5,395	4,933
Those expected to become participants (Under age 15)	6,933	6,619	6,480	5,816	5,578
All current and future participants	42,911	40,876	38,557	35,154	32,928
<i>Actuarial present value for the 75-year projection period of estimated future excess of tax income over cost (Note 17)</i>	-\$6,555	-\$6,763	-\$6,449	-\$5,704	-\$5,229
Additional Information					
<i>Actuarial present value for the 75-year projection period of estimated future excess of tax income over cost (Note 17)</i>	-\$6,555	-\$6,763	-\$6,449	-\$5,704	-\$5,229
<i>Combined OASI and DI Trust Fund assets at start of period</i>	2,238	2,048	1,859	1,687	1,531
<i>Actuarial present value for the 75-year projection period of estimated future excess of tax income over cost, plus the combined OASI and DI Trust Fund assets at start of period (Note 17)</i>	-\$4,316	-\$4,715	-\$4,591	-\$4,017	-\$3,699

Totals do not necessarily equal the sum of rounded components. The accompanying notes are an integral part of these financial statements.

NOTES TO THE BASIC FINANCIAL STATEMENTS FOR THE PERIODS ENDED SEPTEMBER 30, 2008 AND 2007 (Presented in Millions)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

REPORTING ENTITY

The Social Security Administration (SSA), as an independent agency in the executive branch of the United States Government, is responsible for administering the nation's Old-Age and Survivors and Disability Insurance (OASDI) programs and the Supplemental Security Income (SSI) program. SSA is considered a separate reporting entity for financial reporting purposes, and its financial statements have been prepared to report the financial position, net cost, changes in net position, budgetary resources, and the actuarial present value for the 75-year projection period for Social Insurance as required by the Office of Management and Budget (OMB) in OMB Circular No. A-136 *Financial Reporting Requirements*.

The financial statements have been prepared from the accounting records of SSA on an accrual basis, in conformity with generally accepted accounting principles (GAAP) of the United States of America and the form and content for entity financial statements specified by OMB in Circular No. A-136. The Combined Statements of Budgetary Resources and related disclosures provide information about how budgetary resources were made available as well as the status at the end of the period. It is the only statement predominately derived from an entity's budgetary general ledger in accordance with budgetary accounting rules, which are incorporated into GAAP for the Federal government. GAAP for Federal entities are the standards prescribed by the Federal Accounting Standards Advisory Board (FASAB). The preparation of financial statements, in conformity with GAAP, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements and the reported amounts of revenues and expenses during the reporting periods. Actual results could differ from those estimates.

The consolidated and combined financial statements include the accounts of all funds under SSA control, consisting primarily of the Old Age and Survivors Insurance (OASI) and Disability Insurance (DI) Trust Funds, SSA's Limitation on Administrative Expenses (LAE), three deposit funds, and four general fund appropriations. LAE is a mechanism to allow SSA to fund its administrative operations and is considered a subset of the OASI and DI Trust Funds. The three deposit funds are the SSI Unnegotiated Checks, SSI Payments, and Payments for Information Furnished by SSA. The four general funds are the Office of the Inspector General (OIG), Payments to Social Security Trust Funds (PTF), SSI Program, and Payments for Credits Against Social Security Contributions. SSA's financial statements also include OASI and DI investment activities performed by Treasury. SSA's financial activity has been classified and reported by the following program areas: OASI, DI, SSI, LAE, and Other. Other consists primarily of PTF appropriations but also contains non-material activities.

FUND BALANCE WITH TREASURY

SSA's Fund Balance with Treasury, shown on the Consolidated Balance Sheets, is the aggregate amount of funds in SSA's accounts with the Department of the Treasury for which SSA is authorized to make expenditures and pay liabilities. Refer to Note 4, Fund Balance with Treasury.

INVESTMENTS

Daily deposits received by the OASI and DI Trust Funds which are not required to meet current expenditures are invested in interest-bearing obligations of the U.S. Government. The OASI and DI Trust Fund balances may be invested only in interest-bearing obligations of the United States or in obligations guaranteed as to both principal and interest by the United States as provided by Section 201(d) of the *Social Security Act*. These investments

consist of U.S. Treasury special-issue bonds. Special-issue bonds are special public debt obligations for purchase exclusively by the OASI and DI Trust Funds; therefore, they are non-marketable securities. Interest is computed semi-annually (June and December). They are purchased and redeemed at face value, which is the same as their carrying value on the Consolidated Balance Sheets.

PROPERTY, PLANT, AND EQUIPMENT

SSA's property, plant, and equipment (PP&E) are recorded in the LAE program, but represent the capital assets purchased by the OASI, DI, Hospital Insurance (HI), and Supplemental Medical Insurance (SMI) Trust Funds. HI/SMI's share of capital assets is considered Non-Entity Assets. User charges are allocated to all programs based on each program's use of capital assets during the period. All general fund activities reimburse the OASI and DI Trust Funds for their use of OASI and DI Trust Fund assets through the calculation of user charge credits. Statement of Federal Financial Accounting Standard (SFFAS) No. 10, Accounting for Internal Use Software requires the capitalization of internally-developed, contractor-developed and commercial off-the-shelf (COTS) software. The capitalization threshold for most PP&E categories is \$100 thousand. Automated Data Processing and Telecommunications Site Preparation, buildings and other structures are capitalized with no threshold.

The change in PP&E from one reporting period to the next is presented on the chart in Note 16, Reconciliation of Net Cost of Operations to Budget on the Resources that Finance the Acquisition of Assets line. This line item represents the capital assets purchased by the OASI, DI, and HI/SMI Trust Funds that affect budgetary obligations. However, HI/SMI's share of capital assets is considered a Non-Entity Asset.

BENEFITS DUE AND PAYABLE

Liabilities are accrued for OASI and DI benefits due for the month of September which, by statute, are not paid until October. Also, liabilities are accrued on benefits for past periods that have not completed processing by the close of the fiscal year, such as benefit payments due but not paid pending receipt of a correct address, adjudicated and unadjudicated hearings and appeals, and civil litigation cases. Refer to Note 8, Liabilities.

BENEFIT PAYMENTS

SSA recognizes the cost associated with payments in the period the beneficiary or recipient is entitled to receive the payment. OASI and DI benefit disbursements are generally made after the end of each month. SSI disbursements are generally made on the first day of each month. By law, if the monthly disbursement date falls on a weekend or a Federally-recognized holiday, SSA is required to accelerate the entitlement date and the disbursement date to the preceding business day.

ADMINISTRATIVE EXPENSES AND OBLIGATIONS

SSA initially charges administrative expenses to the LAE appropriation. Section 201 (g) of the *Social Security Act* requires the Commissioner of Social Security to determine the proper share of costs incurred during the fiscal year to be charged to the appropriate fund. Accordingly, administrative expenses are subsequently distributed during each month to the appropriate OASI, DI, HI, and SMI Trust Fund and general fund accounts. All such distributions are initially made on an estimated basis and adjusted to actual each year, as provided for in Section 1534 of Title 31, United States Code.

Obligations are incurred in the LAE accounts as activity is processed. Obligations are incurred in each of the financing sources (OASI, DI, SSI, and Other) once LAE's authority is recorded. Since LAE is reported with its financing sources (other than the HI/SMI Trust Funds) on the Combined Statements of Budgetary Resources, and this statement does not allow eliminations, LAE's obligations are recorded twice. This presentation is in conformance with OMB Circular No. A-136 to have the Combined Statement of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133).

RECOGNITION OF FINANCING SOURCES

Financing sources consist of funds transferred from the U.S. Treasury to the OASI and DI Trust Funds for employment taxes (Federal Insurance Contributions Act (FICA) and Self Employment Contributions Act (SECA)),

drawdown of funds for benefit entitlement payments and administrative expenses, appropriations, gifts and other miscellaneous receipts. On an as-needed basis, funds are drawn from the OASI and DI Trust Funds to cover benefit payments. As governed by limitations determined annually by the U.S. Congress, funds are also drawn from the OASI and DI Trust Funds for SSA's operating expenses. To cover SSA's costs to administer a portion of the Medicare program, funds are drawn from the HI/SMI Trust Funds.

Appropriations Used includes payments and accruals for the SSI program and for the OIG and PTF appropriations, which are funded from Treasury's General Fund.

Employment tax revenues are made available daily based on a quarterly estimate of the amount of FICA taxes payable by employers and SECA taxes payable from the self-employed. Adjustments are made to the estimates for actual taxes payable and refunds made. Employment tax credits (the difference between the combined employee and employer rate and the self-employed rate) are also included in tax revenues. Refer to Note 13, Tax Revenues.

Exchange revenue from sales of goods and services primarily include payments of fees SSA receives from those states choosing to have SSA administer their State Supplementation of Federal SSI benefits. Refer to Note 11, Exchange Revenues. Reimbursements are recognized as the services are performed. These financing sources may be used to pay for current operating expenses as well as for capital expenditures such as PP&E as specified by law.

Capitalized expenditures are recognized in the Consolidated Statements of Net Cost as they are consumed. In contrast, budget reporting recognizes these same financing sources in the year the obligation was established to purchase the asset.

EARMARKED FUNDS

SFFAS No. 27, *Identifying and Reporting Earmarked Funds*, requires separate presentation and disclosure of earmarked funds balances in the financial statements. Earmarked funds are financed by specifically identified revenues, often supplemented by other financing sources, which remain available over time. Earmarked funds meet the following criteria:

- A statute committing the Federal Government to use specifically-identified revenues and other financing sources only for designated activities, benefits, or purposes;
- Explicit authority for the earmarked fund to retain revenues and other financing sources not used in the current period for future use to finance the designated activities, benefits, or purposes; and
- A requirement to account for and report on the receipt, use, and retention of the revenues and other financing sources that distinguishes the earmarked fund from the Government's general revenues.

SSA's earmarked funds are the OASI and DI Trust Funds, PTF, and fees collected to cover a portion of SSA's administrative costs for SSI State Supplementation. Refer to Note 9, Earmarked Funds, for additional information.

RECLASSIFICATIONS

Certain FY 2007 balances have been reclassified to conform to FY 2008 financial statement presentations, the effect of which is immaterial. The primary change occurs in the Statement of Changes in Net Position. These changes are attributable to the implementation of new FY 2008 Standard General Ledger Accounts.

2. CENTRALIZED FEDERAL FINANCING ACTIVITIES

SSA's financial activities interact with and are dependent on the financial activities of the centralized management functions of the Federal Government that are undertaken for the benefit of the whole Federal Government. These activities include public debt, employee retirement, life insurance, and health benefit programs. However, SSA's

financial statements do not contain the results of centralized financial decisions and activities performed for the benefit of the entire Government.

Financing for general fund appropriations reported on the Consolidated Statements of Changes in Net Position may be from tax revenue, public borrowing, or both. The source of this funding, whether tax revenue or public borrowing, has not been allocated to SSA.

The General Services Administration (GSA), using monies provided from the OASI and DI Trust Funds, administers the construction or purchase of buildings on SSA's behalf. The acquisition costs of these buildings have been charged to the OASI and DI Trust Funds, capitalized, and included in these statements. SSA also occupies buildings that have been leased by GSA or have been constructed using Public Building Funds. These statements reflect SSA's payments to GSA for lease, operations maintenance, and depreciation expenses associated with these buildings.

SSA's employees participate in the contributory Civil Service Retirement System (CSRS) or the Federal Employees' Retirement System (FERS), to which SSA makes matching contributions. Pursuant to Public Law 99-335, FERS went into effect on January 1, 1987. Employees hired after December 31, 1983 are automatically covered by FERS while employees hired prior to that date could elect to either join FERS or remain in CSRS.

SSA contributions to CSRS were \$104 and \$112 million for the years ended September 30, 2008 and 2007. SSA contributions to the basic FERS plan were \$297 and \$273 million for the years ended September 30, 2008 and 2007. One of the primary differences between FERS and CSRS is that FERS offers a savings plan to which SSA is required to contribute 1 percent of pay and match employee contributions up to an additional 4 percent of basic pay. SSA contributions to the FERS savings plan were \$106 and \$100 million for the years ended September 30, 2008 and 2007. These statements do not reflect CSRS or FERS assets or accumulated plan benefits applicable to SSA employees since this data is only reported in total by the Office of Personnel Management.

3. NON-ENTITY ASSETS

Non-entity assets are those assets that are held by an entity, but are not available to the entity. SSA's Non-Entity Assets are shown in chart 3. The Non-Entity Assets are composed of: (1) SSI Federal and State benefit overpayments classified as SSI accounts receivable; (2) SSI overpayments collected; (3) General Fund's portion of fees collected to administer SSI State Supplementation; (4) General Fund's portion of fees collected to administer Title VIII State Supplementation; (5) SSI Attorney Fees that are returned to the Department of the Treasury General Fund; and (6) portions of SSA's PP&E that were purchased with HI/SMI funds.

Chart 3 - Non-Entity Assets as of September 30:
(\$ in millions)

	2008			2007		
	Non-Entity Assets	Intra-agency Elimination	Net Assets	Non-Entity Assets	Intra-agency Elimination	Net Assets
SSI Fed/State A/R	\$ 5,240	\$ (1,297)	\$ 3,943	\$ 5,123	\$ (1,623)	\$ 3,500
SSI Overpayment Coll	3,057	(72)	2,985	2,757	0	2,757
SSI State Supp Fees (GF)	141	0	141	127	0	127
Title VIII State Supp Fees (GF)	1	0	1	1	0	1
SSI Attorney Fees (GF)	5	0	5	4	0	4
PP&E (CMS)	33	0	33	34	0	34
Total	\$ 8,477	\$ (1,369)	\$ 7,108	\$ 8,046	\$ (1,623)	\$ 6,423

The SSI accounts receivable, net, have been reduced by intra-agency eliminations. SSI Federal overpayment collections are included as a part of the Fund Balance with Treasury on the Consolidated Balance Sheet. Public Law 101-157 requires that collections from repayment of SSI Federal benefit overpayments be deposited in the Department of the Treasury General Fund. These funds, upon deposit, are assets of the Department of the Treasury General Fund and shall not be used by SSA as an SSI budgetary resource to pay SSI benefits or administrative costs. Accordingly, SSI accounts receivable and overpayment collections are recognized as non-entity assets. SSI State overpayment collections are used to offset reimbursements due from the states to SSA.

The Fund Balance with Treasury includes the General Fund's portion of fees collected to administer SSI State Supplementation. The fee collection is classified as exchange revenue. Refer to Note 11, Exchange Revenues, for a description of the SSI State Administrative Fees. In addition, the Fund Balance with Treasury also includes the General Fund's cumulative portion of fees related to Title VIII State Supplementation and SSI Attorney fees.

The CMS portion of PP&E included as part of Property, Plant, and Equipment, Net on the Consolidated Balance Sheet is also recognized as a non-entity asset. The HI/SMI Trust Funds were part of SSA until CMS became a separate agency. Since a portion of HI/SMI funds were used to purchase some of the buildings SSA acquired, HI/SMI retains that portion of assets. Refer to Note 7, Property, Plant, and Equipment, for the major classes of PP&E reported on SSA's financial statements.

4. FUND BALANCE WITH TREASURY

The Fund Balance with Treasury (FBWT), shown on the Consolidated Balance Sheets, represents the total of all of SSA's undisbursed account balances with the Department of the Treasury. Chart 4a, Fund Balances, summarizes the fund balances by fund type and by SSA major program. Other Funds includes PTF, deposit funds, and receipt accounts. Chart 4b, Status of Fund Balances, presents SSA's Fund Balance with Treasury through the status of budgetary resources. OASI, DI, and LAE Trust Fund budgetary accounts are not used in chart 4b since OASI and DI Trust Fund cash balances are held in investments until needed and will not match the Fund Balance with Treasury. This means that amounts in chart 4b will not match corresponding activity on the combined SBR.

Chart 4a - Fund Balances as of September 30: (\$ in millions)			
	2008	2007	
Trust Funds*			
OASI	\$ (329)	\$ (941)	
DI	(356)	(361)	
LAE	55	9	
General Funds			
SSI	4,329	4,445	
Other	59	60	
Other Funds			
SSI	202	174	
Other	2,989	2,760	
Total	\$ 6,949	\$ 6,146	

Chart 4b - Status of Fund Balances as of September 30: (\$ in millions)			
	2008	2007	
Unobligated Balance			
Available	\$ 659	\$ 2,481	
Unavailable	1,499	76	
Obligated Balance Not Yet			
Disbursed	2,230	1,948	
OASI, DI and LAE	(630)	(1,293)	
Non-Budgetary FBWT	3,191	2,934	
Total	\$ 6,949	\$ 6,146	

*The term "Trust Funds" is the fund type, as defined by OMB.

The negative fund balances reported for the OASI and DI Trust Funds as of September 30, 2008 and 2007 are the result of the policy to protect the OASI and DI Trust Fund investments by not liquidating the investments until the

cash is needed. Transfers between the OASI and DI Trust Funds and Treasury are managed to favor the financial position of the OASI and DI Trust Funds. Therefore, investments held by the OASI and DI Trust Funds are liquidated only as needed by Treasury to cover benefit and administrative payments. To maintain consistency with the amounts reported by Treasury for OASI and DI, the negative balances were not reclassified as liabilities on the Consolidated Balance Sheets.

5. INVESTMENTS AND INTEREST RECEIVABLE

The cash receipts collected from the public for the OASI and DI Trust Funds are invested in interest bearing securities backed by the full faith and credit of the Federal Government, generally U.S. par-value Treasury special securities. Treasury special securities are issued directly by the Treasury Secretary to the OASI and DI Trust Funds and are non-negotiable and non-transferable in the secondary market. Par-value Treasury special securities are issued with a stated rate of interest applied to its par amount and are purchased and redeemed at par plus accrued interest at or before maturity. Therefore, there are no premiums or discounts associated with the redemption of these securities.

SSA's investments in Special-Issue U.S. Treasury Securities are \$2,367,138 and \$2,182,091 million as of September 30, 2008 and 2007, respectively. The interest rates on these investments range from 3 ½ to 7 ¼ percent and the accrued interest is paid on June 30, December 31, and at maturity or redemption. Investments held for the OASI and DI Trust Funds mature at various dates ranging from the present to the year 2023. Accrued interest receivable on the OASI and DI Trust Fund investments with the U.S. Treasury is an Intragovernmental Interest Receivable, Net, reported on the Consolidated Balance Sheets. Interest receivable amounts are \$29,112 and \$27,727 million as of September 30, 2008 and 2007.

Treasury special securities are an asset to the OASI and DI Trust Funds and a liability to the U.S. Treasury. Because the OASI and DI Trust Funds and the U.S. Treasury are both part of the Government, these assets and liabilities offset each other for consolidation purposes in the U.S. Government-wide financial statements. For this reason, they do not represent a net asset or a net liability in the U.S. Government-wide financial statements.

The U.S. Treasury does not set aside financial assets to cover its liabilities associated with the OASI and DI Trust Funds. The cash received from the OASI and DI Trust Funds for investment in these securities is used by the U.S. Treasury for general Government purposes. Treasury special securities provide the OASI and DI Trust Funds with authority to draw upon the U.S. Treasury to make future benefit payments or other expenditures. When the OASI and DI Trust Funds require redemption of these securities to make expenditures, the Government finances those expenditures out of accumulated cash balances, by raising taxes or other receipts, by borrowing from the public or repaying less debt, or by curtailing other expenditures. This is the same way that the Government finances all other expenditures.

6. ACCOUNTS RECEIVABLE

INTRAGOVERNMENTAL

Intragovernmental Accounts Receivable, Net, reported on the Consolidated Balance Sheets in the amounts of \$425 and \$451 million as of September 30, 2008 and 2007 primarily represent amounts to be paid from the HI/SMI Trust Funds to the LAE Appropriation. The gross accounts receivable has been reduced by \$2,167 and \$1,844 million as of September 30, 2008 and 2007 as an intra-agency elimination. This elimination is primarily to offset SSA's LAE receivable to be paid from the appropriate funds with corresponding payables set up for anticipated LAE disbursements.

An allowance for doubtful accounts was not applied to determine the net value of Intragovernmental Accounts Receivable. According to SFFAS No. 1, an allowance for estimated uncollectible amounts should be recognized to reduce the gross amount of receivables to its net realizable value; however, no potential losses have been assessed on intragovernmental receivables based on individual account and group analysis.

WITH THE PUBLIC

Accounts Receivable, Net, reported on the Consolidated Balance Sheets is shown by SSA major program in Chart 6. Amounts in the OASI and DI programs consist mainly of monies due to SSA from individuals who received benefits in excess of their entitlement. The amount of SSI Accounts Receivable represents overpaid Federal and state SSI payments to be recovered from SSI recipients who are no longer eligible to receive supplemental income or received benefits in excess of their eligibility. Refer to Note 3, Non-Entity Assets, for a discussion of the SSI Federal and state overpayments.

Chart 6 - Accounts Receivable with the Public by Major Program as of September 30: (\$ in millions)						
	2008			2007		
	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable	Gross Receivable	Allowance for Doubtful Accounts	Net Receivable
OASI	\$ 2,685	\$ (197)	\$ 2,488	\$ 2,498	\$ (166)	\$ 2,332
DI	5,018	(2,013)	3,005	4,735	(1,955)	2,780
SSI*	7,181	(1,835)	5,346	7,005	(1,781)	5,224
LAE	28	0	28	14	0	14
Subtotal	14,912	(4,045)	10,867	14,252	(3,902)	10,350
Less:						
Eliminations**	(1,936)	0	(1,936)	(2,333)	0	(2,333)
Total	\$ 12,976	\$ (4,045)	\$ 8,931	\$ 11,919	\$ (3,902)	\$ 8,017

*See Discussion in Note 3, Non-Entity Assets ** Intra-Agency Eliminations

Chart 6 shows that in FY 2008 and 2007, gross accounts receivable was reduced by \$1,936 and \$2,333 million as an intra-agency elimination. This intra-agency activity results primarily from Special Disability Workload (SDW) cases. In a prior period, SSA determined that a group of SSI recipients who were eligible to receive DI benefits were paid either SSI or OASI benefits. At that time, the agency recognized and established receivables for both the OASI and SSI programs with an offsetting payable in the DI program.

SSA continues to identify and settle SDW cases and current estimates indicate that there are about 65,000 SDW cases remaining for which SSA expects to incur a net accrued liability for the combined OASI and DI Trust Funds and an offsetting SSI receivable. OASI SDW receivables are \$639 and \$710 million as of September 30, 2008 and 2007. DI SDW receivables are less than \$1 million as of September 30, 2008 and 2007. SSI SDW net receivables are \$738 and \$1,218 million as of September 30, 2008 and 2007.

A ratio of the estimated allowance for doubtful accounts is recalculated annually using a moving 5-year average of write-offs divided by clearances comprised of write-offs, waivers, and collections. The ratio is then applied to outstanding receivables to compute the amount of allowances for doubtful accounts.

7. PROPERTY, PLANT, AND EQUIPMENT

Property, Plant, and Equipment, Net, as reported on the Consolidated Balance Sheets is reflected by major class in chart 7.

Chart 7 - Property, Plant, and Equipment as of September 30:
(\$ in millions)

Major Classes:	2008			2007		
	Cost	Accumulated Depreciation	Net Book Value	Cost	Accumulated Depreciation	Net Book Value
Land	\$ 4	\$ 0	\$ 4	\$ 4	\$ 0	\$ 4
Buildings	515	(280)	235	513	(268)	245
Equipment (incl. ADP Hardware)	505	(446)	59	483	(401)	82
Internal Use Software	2,937	(1,120)	1,817	2,380	(825)	1,555
Leasehold Improvements	193	(187)	6	189	(183)	6
Total	\$ 4,154	\$ (2,033)	\$ 2,121	\$ 3,569	\$ (1,677)	\$ 1,892

Major Classes:	Estimated Useful Life	Method of Depreciation
Land	N/A	N/A
Buildings	50 years	Straight Line
Equipment (incl. ADP Hardware)	3-10 years	Straight Line
Internal Use Software	10 years	Straight Line
Leasehold Improvements	6 years	Straight Line

8. LIABILITIES

Liabilities of Federal agencies are classified as liabilities Covered or Not Covered by budgetary resources and are recognized when they are incurred. Chart 8a discloses SSA's liabilities Covered by budgetary resources and Not Covered by budgetary resources.

Chart 8a - Liabilities as of September 30:
(\$ in millions)

	2008			2007		
	Covered	Not Covered	Total	Covered	Not Covered	Total
Intragovernmental:						
Accrued RRI	\$ 3,937	\$ 0	\$ 3,937	\$ 3,802	\$ 0	\$ 3,802
Accounts Payable	36	8,008	8,044	38	7,618	7,656
Other	52	204	256	40	187	227
Total Intragovernmental	4,025	8,212	12,237	3,880	7,805	11,685
Benefits Due and Payable	69,977	3,150	73,127	66,924	3,014	69,938
Accounts Payable	34	389	423	16	356	372
Other	736	665	1,401	644	619	1,263
Total	\$ 74,772	\$ 12,416	\$ 87,188	\$ 71,464	\$ 11,794	\$ 83,258

ACCRUED RAILROAD RETIREMENT INTERCHANGE

The Accrued Railroad Retirement Interchange (RRI) represents an accrued liability due the Railroad Retirement Board (RRB) for the annual interchange from the OASI and DI Trust Funds. This annual interchange is required to place the OASI and DI Trust Funds in the same position they would have been if railroad employment had been covered by SSA. The law requires the transfer, including interest accrued from the end of the preceding fiscal year, to be made in June.

INTRAGOVERNMENTAL ACCOUNTS PAYABLE

Included in the Intragovernmental Accounts Payable Not Covered by budgetary resources are amounts due to the Department of the Treasury General Fund. A payable is recorded equal to the SSI Federal benefit overpayments receivable when overpayments are identified and for the SSI Federal benefit overpayment collections as they are received. Refer to Note 3, Non-Entity Assets, for a description of the SSI receivables established for the repayment of SSI benefit overpayments.

INTRAGOVERNMENTAL OTHER LIABILITIES

Intragovernmental Other Liabilities Covered by budgetary resources includes amounts for employer contributions and payroll taxes and amounts advanced by Federal agencies for goods and services to be furnished. It also includes amounts for the Federal Employees' Compensation Act (FECA), administered by DOL. FECA provides income and medical cost protection to covered Federal civilian employees injured on the job, employees who have incurred a work-related injury or occupational disease, and beneficiaries of employees whose death is attributable to a job-related injury or occupational disease. For payment purposes, claims incurred for benefits for SSA employees under FECA are divided into current and non-current portions. The current portion represents SSA's accrued liability due to DOL's FECA Special Benefits Fund for payments made on SSA's behalf. The funding for the liability will be made from a future appropriation. SSA's current portion of FECA liability is \$58 and \$55 million as of September 30, 2008 and 2007. Intragovernmental Other Not Covered amounts include \$141 and \$127 million as of September 30, 2008 and 2007 for SSI State Fees payable to the Department of the Treasury General Fund. Refer to Note 3, Non-Entity Assets and Note 11, Exchange Revenues, for a discussion of the SSI State Administrative Fees.

BENEFITS DUE AND PAYABLE

Benefits Due and Payable are amounts owed to program recipients that have not yet been paid as of the balance sheet date. Chart 8b shows the amounts for SSA's major programs as of September 30, 2008 and 2007. These amounts include an estimate for unadjudicated cases that will be payable in the future. Except for the SSI program, the unadjudicated cases are covered by budgetary resources.

Chart 8b - Benefits Due and Payable as of September 30: (\$ in millions)		
	2008	2007
OASI	\$ 46,418	\$ 44,030
DI	24,116	24,017
SSI	4,529	4,224
Subtotal	75,063	72,271
Less: Intra-agency eliminations	(1,936)	(2,333)
Total	\$ 73,127	\$ 69,938

The amounts of Benefits Due and Payable for OASI and DI presented in Chart 8b also includes estimated payables related to SDW. Refer to Note 6, Interest and Accounts Receivable. OASI payables are \$286 and \$325 million as of September 30, 2008 and 2007. DI payables are \$2,104 and \$2,869 million as of September 30, 2008 and 2007. In FY 2008, the DI SDW payable has decreased by the excess of discharged liabilities for adjudicated cases over continued benefit accrual for previously identified cases not yet adjudicated.

Chart 8b also shows that as of FY 2008 and 2007, gross Benefits Due and Payable was reduced by \$1,936 and \$2,333 million as an intra-agency elimination. This intra-agency activity results primarily from SDW cases. Refer to Note 6, Interest and Accounts Receivable. Since retroactive payment of the OASI and DI benefits results in an overpayment of SSI benefits, the OASI and DI payables are offset by the SSI overpayment related to SDW. Therefore, these offsets are presented as intra-agency elimination.

Chart 8c shows the estimated net SDW liability due to the public as of September 30, 2008 and 2007.

Chart 8c - Net SDW Liability as of September 30: (\$ in millions)		
	2008	2007
Net DI Liability	\$ 2,103	\$ 2,869
Net OASI Receivable	(353)	(384)
Net SSI Receivable	(738)	(1,218)
Net Liability Due to the Public	\$ 1,012	\$ 1,267

ACCOUNTS PAYABLE

Accounts Payable Not Covered by budgetary resources consists of SSI overpayments due to states and the SSI windfall amounts. States are entitled to any overpayment that SSA expects to collect since they make the actual payments to the beneficiaries. SSI windfall amounts are generated when a SSI recipient is found to be eligible for OASI or DI benefits. Any overlapping payments to the beneficiary made by OASI or DI are paid back to the SSI program, creating the windfall amount. This windfall amount, like the state overpayment, is set up as an accounts payable until payment is made to the states.

OTHER LIABILITIES

SSA's Other Liabilities Covered by budgetary resources is comprised of accrued payroll, lease liability for purchase contract buildings, and unapplied deposit funds. Other Liabilities Not Covered by budgetary resources includes the non-current portion of FECA, which is an actuarial liability. The non-current portion of \$298 and \$272 million as of September 30, 2008 and 2007 represents the expected liability from FECA claims for the next 23-year period. This actuarial liability was calculated using historical payment data to project future costs. The remaining portion of Other Liabilities Not Covered by budgetary resources is leave earned but not taken.

CONTINGENT LIABILITIES

We have been apprised by the Internal Revenue Service (IRS) that twelve employment tax refund cases are pending in Federal courts throughout the country. The cases concern whether medical residents should continue to be subject to FICA taxation. FICA taxes are collected by the U.S. Treasury and then transferred to the OASI and DI Trust Funds. The cases concern two different IRS regulations, have led to disparate outcomes for the Government in the various courts on the question of medical resident taxation, and are being actively litigated and appealed. The Government is contesting the cases vigorously. The Department of Justice (Tax Division) is handling the litigation and SSA is not a named party. SSA is not able to make an estimate of the possible liability, if any, at this time.

9. EARMARKED FUNDS

The OASI and DI Trust Funds, PTF, and SSI State Administrative Fees are classified as earmarked funds. These funds obtain revenues primarily through earmarked receipts, such as Social Security payroll taxes, and, to a lesser extent, offsetting collections.

OASI AND DI TRUST FUNDS

The OASI Trust Fund provides assistance and protection against loss of earnings due to retirement or death and the DI Trust Fund provides assistance and protection against the loss of earnings due to a wage earner's disability in the form of monetary payments.

The OASI and DI Trust Funds are primarily funded by payroll and self-employment taxes. Additional income is provided to these funds from interest earnings on Treasury securities, Federal agencies' payments for the Social Security benefits earned by military and Federal civilian employees, and Treasury payments for a portion of income taxes paid on Social Security. The law establishing the OASI and DI Trust Funds is set forth in 42 U.S.C. § 401. Refer to Note 13, Tax Revenues, for a discussion on employment taxes credited to the OASI and DI Trust Funds and Note 5, Investments and Interest Receivable, for a discussion on interest.

Funds not withdrawn for current expenses (benefits, the financial interchange with the Railroad Retirement program, and administrative expenses) are invested in interest-bearing Federal securities, as required by law. See Note 5, Investments and Interest Receivable, for a discussion on Treasury securities.

PTF

PTF consists of transfers authorized by law between the Department of Treasury General Fund and the OASI and DI Trust Funds. PTF activity includes Income Tax on Social Security Benefits, Reimbursable Union Activity, Coal Industry Retiree Health Benefits, Pension Reform, Special Age 72 Benefits, Income Tax Credit Reimbursement, and Unnegotiated Check Reimbursement. PTF funds are warranted from the general fund and transferred to the OASI and DI Trust Funds via an intragovernmental transfer. These transfers are to be reserved for specific purposes in the future. Because of this, PTF is considered earmarked from the point that it is transferred into SSA and reported as Appropriations Received on the Statement of Changes in Net Position.

SSI STATE ADMINISTRATIVE FEES

Administrative Fees collected from states are also classified as earmarked funds. Section 42 U.S.C. 1616 authorizes the Commissioner of Social Security to assess each state an administrative fee in an amount equal to the number of Supplemental payments made by SSA on behalf of the state for any month in a fiscal year, multiplied by the applicable rate for the fiscal year. See Note 11, Exchange Revenues, for a discussion of SSI State Administrative Fees.

See Chart 9a for balances of earmarked funds as reported in the Consolidated Financial Statements for the years ended September 30, 2008 and 2007.

Chart 9a - Earmarked Funds as of September 30: Consolidating Schedule (\$ in millions)					
	2008				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	\$ (329)	\$ (356)	\$ 72	\$ 0	\$ (613)
Investments	2,150,651	216,487	0	0	2,367,138
Interest Receivable	26,403	2,709	0	0	29,112
Accounts Receivables	2,492	3,007	0	(644)	4,855
Total Assets	\$ 2,179,217	\$ 221,847	\$ 72	\$ (644)	\$ 2,400,492
LIABILITIES and NET POSITION					
Liabilities	\$ 50,584	\$ 25,199	\$ 6	\$ (644)	\$ 75,145
Total Liabilities	50,584	25,199	6	(644)	75,145
Unexpended Appropriations	0	0	54	0	54
Cumulative Results of Operations	2,128,633	196,648	12	0	2,325,293
Total Liabilities and Net Position	\$ 2,179,217	\$ 221,847	\$ 72	\$ (644)	\$ 2,400,492
Statement of Net Cost					
Program Costs	\$ 505,923	\$ 104,336	\$ (3)	\$ 0	\$ 610,256
Less Earned Revenue	1	20	139	0	160
Net Cost of Operations	\$ 505,922	\$ 104,316	\$ (142)	\$ 0	\$ 610,096
Statement of Changes in Net Position					
Net Position Beginning of Period	\$ 1,946,664	\$ 193,947	\$ 63	\$ 0	\$ 2,140,674
Non-Exchange Revenue	10,058	(1,437)	(139)	0	8,482
Net Cost of Operations	(505,922)	(104,316)	142	0	(610,096)
Taxes and Interest Revenue	677,833	108,454	0	0	786,287
Change in Net Position	181,969	2,701	3	0	184,673
Net Position End of Period	\$ 2,128,633	\$ 196,648	\$ 66	\$ 0	\$ 2,325,347

Chart 9a includes eliminations between SSA's earmarked funds which primarily represent eliminations for SDW activity between the OASI and DI Trust Funds; however, \$2,600 million of liabilities in the earmarked funds for the year ended September 30, 2008 need to be eliminated against LAE and SSI, which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in chart 9a.

Chart 9a - Earmarked Funds as of September 30:
Consolidating Schedule
(\$ in millions)

	2007				
	OASI Trust Fund	DI Trust Fund	Other Earmarked Funds	Eliminations	Total Earmarked Funds
Balance Sheet					
ASSETS					
Fund Balance with Treasury	\$ (941)	\$ (361)	\$ 65	\$ 0	\$ (1,237)
Investments	1,968,262	213,829	0	0	2,182,091
Interest Receivable	25,041	2,686	0	0	27,727
Accounts Receivables	2,332	2,780	0	(710)	4,402
Total Assets	\$ 1,994,694	\$ 218,934	\$ 65	\$ (710)	\$ 2,212,983
LIABILITIES and NET POSITION					
Liabilities	\$ 48,030	\$ 24,987	\$ 2	\$ (710)	\$ 72,309
Total Liabilities	48,030	24,987	2	(710)	72,309
Unexpended Appropriations	0	0	57	0	57
Cumulative Results of Operations	1,946,664	193,947	6	0	2,140,617
Total Liabilities and Net Position	\$ 1,994,694	\$ 218,934	\$ 65	\$ (710)	\$ 2,212,983
Statement of Net Cost					
Program Costs	\$ 481,615	\$ 97,589	\$ 3	\$ 0	\$ 579,207
Less Earned Revenue	0	0	119	0	119
Net Cost of Operations	\$ 481,615	\$ 97,589	\$ (116)	\$ 0	\$ 579,088
Statement of Changes in Net Position					
Net Position Beginning of Period	\$ 1,771,908	\$ 183,007	\$ 63	\$ 0	\$ 1,954,978
Adjustments	(5,042)	5,042	0	0	0
Beginning Balances, Adjusted	\$ 1,766,866	\$ 188,049	\$ 63	\$ 0	\$ 1,954,978
Non-Exchange Revenue	10,568	(1,512)	(116)	0	8,940
Net Cost of Operations	(481,615)	(97,589)	116	0	(579,088)
Taxes and Interest Revenue	650,845	104,999	0	0	755,844
Change in Net Position	179,798	5,898	0	0	185,696
Net Position End of Period	\$ 1,946,664	\$ 193,947	\$ 63	\$ 0	\$ 2,140,674

Chart 9a includes eliminations between SSA's earmarked funds which primarily represent eliminations for SDW activity between the OASI and DI Trust Funds; however, \$2,785 million of liabilities in the earmarked funds for the year ended September 30, 2007 need to be eliminated against LAE and SSI, which are not earmarked. Therefore, due to the separate presentation of earmarked funds only in this note, those eliminations have not been included in chart 9a.

Chart 9b present the Statement of Changes in Net Position in columnar format. Eliminations have no effect on columnar totals presented for the years ended September 30, 2008 and 2007.

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: (\$ in millions)			
	2008		
	Cumulative Results of Operations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 2,140,617	\$ 175	\$ 2,140,792
Budgetary Financing Sources			
Appropriations Used	17,833	44,289	62,122
Tax Revenues (Note 13)	671,182	0	671,182
Interest Revenues	115,105	0	115,105
Transfers -In/Out - Without Reimbursements	(5,247)	6,957	1,710
RailRoad Retirement Interchange	(4,184)	0	(4,184)
Net Transfers-In/Out	(9,431)	6,957	(2,474)
Other Budgetary Financing Sources	83	0	83
Other Financing Sources (Non-Exchange)			
Imputed Financing Sources (Note 14)	0	496	496
Other	0	(3,201)	(3,201)
Total Financing Sources	794,772	48,541	843,313
Net Cost of Operations	610,096	48,295	658,391
Net Change	184,676	246	184,922
Cumulative Results of Operations	\$ 2,325,293	\$ 421	\$ 2,325,714

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: (\$ in millions)			
	2008		
	Unexpended Appropriations		
	Consolidated Earmarked Funds		Consolidated Total
Beginning Balances	\$ 57		\$ 2,279
Budgetary Financing Sources			
Appropriations Received	17,840	43,847	61,687
Other Adjustments	(10)	(56)	(66)
Appropriations Used	(17,833)	(44,289)	(62,122)
Total Budgetary Financing Sources	(3)	(498)	(501)
Net Change	(3)	(498)	(501)
Total Unexpended Appropriations	54	1,724	1,778
Net Position	\$ 2,325,347	\$ 2,145	\$ 2,327,492

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: Consolidated Schedule (\$ in millions) RECLASSIFIED			
	2007		
	Cumulative Results of Operations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 1,954,921	\$ (161)	\$ 1,954,760
Budgetary Financing Sources			
Appropriations Used	19,326	39,726	59,052
Tax Revenues (Note 13)	647,387	0	647,387
Interest Revenues	108,457	0	108,457
Transfers In/Out Without Reimbursement	(6,268)	6,652	384
Railroad Retirement Interchange	(4,068)	0	(4,068)
Net Transfers In/Out	(10,336)	6,652	(3,684)
Other Budgetary Financing Sources	69	0	69
Other Financing Sources (Non-Exchange)			
Transfers-In/Out	0	(17)	(17)
Imputed Financing Sources (Note 14)	0	541	541
Other	(119)	(2,887)	(3,006)
Total Financing Sources	764,784	44,015	808,799
Net Cost of Operations	579,088	43,679	622,767
Net Change	185,696	336	186,032
Cumulative Results of Operations	\$ 2,140,617	\$ 175	\$ 2,140,792

Chart 9b - Earmarked Funds (Columnar Approach) as of September 30: (\$ in millions)			
	2007		
	Unexpended Appropriations		
	Consolidated Earmarked Funds	Consolidated All Other Funds	Consolidated Total
Beginning Balances	\$ 57	\$ 1,614	\$ 1,671
Budgetary Financing Sources			
Appropriations Received	19,335	40,334	59,669
Other Adjustments	(9)	0	(9)
Appropriations Used	(19,326)	(39,726)	(59,052)
Total Budgetary Financing Sources	0	608	608
Net Change	0	608	608
Total Unexpended Appropriations	57	2,222	2,279
Net Position	\$ 2,140,674	\$ 2,397	\$ 2,143,071

10. OPERATING EXPENSES

CLASSIFICATION OF OPERATING EXPENSES BY MAJOR PROGRAM

Chart 10a displays SSA's operating expenses for each major program. The HI/SMI Trust Funds' shares of SSA's operating expenses, which include the Medicare Prescription Drug Program, are recorded in Other. In addition to LAE operating expenses, SSA programs incur other operating expenses that are reported on the Statements of Net Cost. OASI and DI Trust Fund Operations include expenses of the Department of the Treasury to assist in managing the OASI and DI Trust Funds. Vocational Rehabilitation includes expenditures of state agencies for vocational rehabilitation of DI and SSI beneficiaries.

Chart 10a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)						
2008						
	LAE SSA	OIG	OASI and DI Trust Fund Operations	Vocational Rehabilitation	Total	
OASI	\$ 2,642	\$ 35	\$ 702	\$ 0	\$ 3,379	
DI	2,435	32	130	103	2,700	
SSI	3,025	0	0	107	3,132	
Other	1,820	27	0	(3)	1,844	
	\$ 9,922	\$ 94	\$ 832	\$ 207	\$ 11,055	

Chart 10a - SSA's Operating Expenses by Major Program as of September 30: (\$ in millions)						
2007						
	LAE SSA	OIG	OASI and DI Trust Fund Operations	Vocational Rehabilitation	Total	
OASI	\$ 2,474	\$ 36	\$ 589	\$ 0	\$ 3,099	
DI	2,347	34	106	73	2,560	
SSI	3,013	0	0	104	3,117	
Other	1,662	24	0	3	1,689	
	\$ 9,496	\$ 94	\$ 695	\$ 180	\$ 10,465	

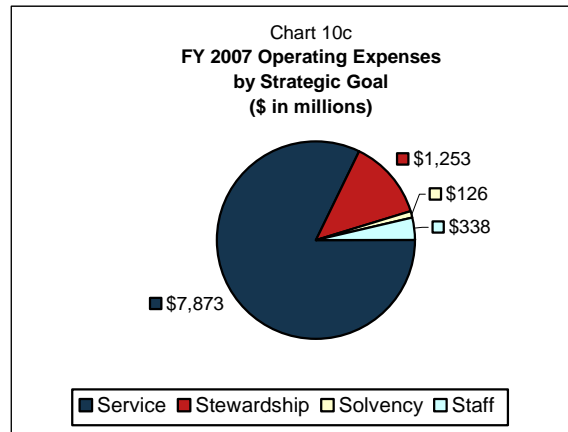
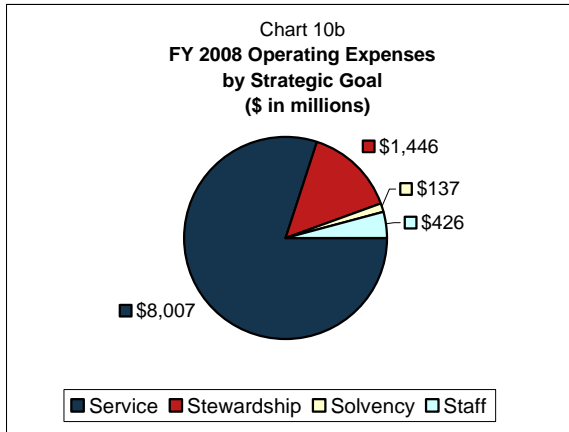
CLASSIFICATION OF OPERATING EXPENSES BY STRATEGIC GOAL

SSA's Annual Performance Plan (APP) is characterized by broad-based strategic goals that are supported by the entire Agency. The four goals are:

- Service -- To deliver high-quality, citizen-centered service;
- Stewardship -- To ensure superior stewardship of Social Security programs and resources;
- Solvency -- To achieve sustainable solvency and ensure Social Security programs meet the needs of current and future generations; and
- Staff -- To strategically manage and align staff to support SSA's mission.

Charts 10b and 10c exhibit distribution of FY 2008 and 2007 SSA and OIG LAE operating expenses to the four APP Strategic goals which agree to the Agency's LAE budget appropriation. OASI and DI Trust Fund Operations

and Vocational Rehabilitation expenses (see chart 10a) are not included in LAE by strategic goal as these amounts are disbursed from the OASI and DI Trust Funds and are not directly linked to the budget authority.



11. EXCHANGE REVENUES

Revenue from exchange transactions is recognized when goods and services are provided. The goods and services provided are priced so that charges do not exceed the agency's cost. Total exchange revenues are \$347 and \$284 million for the years ended September 30, 2008 and 2007. SSA exchange revenue primarily consists of fees collected to administer SSI State Supplementation. SSA has agreements with 23 states and the District of Columbia to administer some or all of the states' supplement to Federal SSI benefits. Additional administrative fees are collected for administering Title VIII State Supplementation and handling SSI attorney fees. SSA earned administrative fee revenue in the amount of \$285 and \$250 million for the years ended September 30, 2008 and 2007.

A portion of the administrative fees we earn are non-entity assets. These fees are included within Fund Balance with Treasury in the amount of \$146 and \$131 million as of September 30, 2008 and 2007. The portion of these non-entity asset fees collected to administer SSI State Supplementation total \$141 and \$127 million as of September 30, 2008 and 2007. The fees are deposited directly to the Department of the Treasury General Fund and reported as a part of Fund Balance with Treasury on the Consolidated Balance Sheets. A corresponding accounts payable to the Department of the Treasury General Fund is presented so that net position is not affected by this activity. The remainder of the administrative fees, which meet the criteria of an earmarked fund, in the amount of \$139 and \$119 million for the years ended September 30, 2008 and 2007 are maintained to defray expenses in carrying out the SSI program.

In addition, SSA earned \$62 and \$34 million for the years ended September 30, 2008 and 2007 in other exchange revenue.

12. COSTS AND EXCHANGE REVENUE CLASSIFICATIONS

Chart 12 displays costs and exchange revenue by Intragovernmental and Public classifications. Intragovernmental costs are related to activity with Federal entities, which include: payments for processing benefit and administrative checks, employee benefits and imputed financing costs. Refer to Note 14, Imputed Financing, for additional information. Public costs are related to activity with non-Federal entities, which include: OASI and DI benefit payments, SSI payments, payroll, and other administrative costs. Intragovernmental exchange revenue is collections received from Federal entities for services provided which includes reimbursements from the United States Department of Agriculture for the Food Stamp Program. Public exchange revenue is collections received from non-Federal entities for services provided which includes fees for administering the states' portion of SSI payments. Other Program primarily reports the costs and revenues that SSA incurs in administering a portion of the Medicare program.

Chart 12- Costs and Exchange Revenue Classifications as of September 30:
(\$ in millions)

	2008			2007		
	Gross Cost	Less Earned Revenue	Net Cost	Gross Cost	Less Earned Revenue	Net Cost
OASI Program						
Intragovernmental	\$ 1,438	\$ (7)	\$ 1,431	\$ 1,291	\$ (6)	\$ 1,285
Public	507,162	(5)	507,157	482,834	(3)	482,831
OASI Subtotal	508,600	(12)	508,588	484,125	(9)	484,116
DI Program						
Intragovernmental	817	(7)	810	774	(5)	769
Public	105,986	(23)	105,963	99,196	(3)	99,193
DI Subtotal	106,803	(30)	106,773	99,970	(8)	99,962
SSI Program						
Intragovernmental	857	(8)	849	853	(7)	846
Public	40,624	(289)	40,335	36,406	(254)	36,152
SSI Subtotal	41,481	(297)	41,184	37,259	(261)	36,998
Other Program						
Intragovernmental	516	(5)	511	475	(4)	471
Public	1,338	(3)	1,335	1,222	(2)	1,220
Other Subtotal	1,854	(8)	1,846	1,697	(6)	1,691
Total	\$ 658,738	\$ (347)	\$ 658,391	\$ 623,051	\$ (284)	\$ 622,767

13. TAX REVENUES

Employment tax revenues are estimated monthly by the Department of the Treasury based on SSA's quarterly estimate of taxable earnings. These estimates are used by the Department of the Treasury to credit the Social Security OASI and DI Trust Funds with tax receipts received during the month. Treasury makes adjustments to the amounts previously credited to the OASI and DI Trust Funds based on actual wage data certified quarterly by SSA.

As required by current law, the Social Security OASI and DI Trust Funds are due the total amount of employment taxes payable regardless of whether they have been collected. These estimated amounts are subject to adjustments for wages that were previously unreported, employers misunderstanding the wage reporting instructions, businesses terminating operations during the year, or errors made and corrected with either the Internal Revenue Service (IRS) or SSA. Revenues to the OASI and DI Trust Funds are reduced for excess employment taxes, which are refunded by offset against income taxes. The Consolidated Statements of Changes in Net Position recognizes tax revenues of \$671,182 and \$647,387 million for the years ended September 30, 2008 and 2007.

14. IMPUTED FINANCING

The Consolidated Statements of Net Cost recognizes post-employment benefit expenses of \$888 and \$939 million for the years ended September 30, 2008 and 2007 as a portion of operating expenses. The expense represents SSA's share of the current and estimated future outlays for employee pensions, life, and health insurance. The Consolidated Statements of Changes in Net Position recognizes an imputed financing source of \$496 and \$541 million for the years ended September 30, 2008 and 2007 that primarily represents annual service cost not paid by SSA.

15. BUDGETARY RESOURCES

APPROPRIATIONS RECEIVED

The Combined Statements of Budgetary Resources discloses Appropriations Received of \$864,648 and \$832,560 million for the years ended September 30, 2008 and 2007. Appropriations Received on the Consolidated Statements of Changes in Net Position are \$61,687 and \$59,669 million for the same years. The primary differences of \$802,961 and \$772,891 million represent appropriated OASI and DI Trust Fund receipts. The Consolidated Statements of Changes in Net Position reflects new appropriations received during the year; however, those amounts do not include dedicated and earmarked receipts in the OASI and DI Trust Funds.

Appropriations Received for PTF are recorded based on warrants received from the general fund and presented as Other in the financial statements. These amounts are transferred to the Bureau of Public Debt where they are also recorded as Appropriations Received in the OASI and DI Trust Funds. Since OASI and DI Trust Fund activity is combined with Other on SSA's Combined Statements of Budgetary Resources, Appropriations Received for PTF are duplicated. This is in compliance with OMB's directive to have the Combined Statements of Budgetary Resources in agreement with the required Budget Execution Reports (SF-133). These amounts are also included on the Consolidated Statements of Changes in Net Position for Other in Appropriations Received.

APPORTIONMENT CATEGORIES OF OBLIGATIONS INCURRED

OMB usually distributes budgetary resources in an account or fund. Apportionments by fiscal quarters are classified as Category A. Other apportionments such as activities, projects, objects, or a combination of these categories are classified as Category B. Chart 15a reflects the amounts of direct and reimbursable obligations incurred against amounts apportioned under Category B, and Exempt from Apportionment.

Chart 15a - Apportionment Categories of Obligations Incurred as of September 30: (\$ in millions)						
	2008			2007		
	Direct	Reimbursable	Total	Direct	Reimbursable	Total
Category B	\$ 54,704	\$ 4,415	\$ 59,119	\$ 50,450	\$ 3,991	\$ 54,441
Exempt	637,748	5	637,753	607,374	0	607,374
Total	\$ 692,452	\$ 4,420	\$ 696,872	\$ 657,824	\$ 3,991	\$ 661,815

PERMANENT INDEFINITE APPROPRIATION

SSA has three Permanent Indefinite Appropriations: OASI and DI Trust Funds and Title VIII. The OASI Trust Fund provides monetary assistance and protection against the loss of earnings due to retirement or death. The DI Trust Fund provides monetary assistance and protection against the loss of earnings due to a wage earner's disability. The authority remains available as long as there are qualified beneficiaries.

The Title VIII Program was established as part of Public Law 106-169, *Foster Care Independence Act of 1999*. It provides special benefits to World War II Philippine veterans receiving SSI, who wanted to spend their remaining years outside the United States. Prior to the passage of PL 106-169, the veterans' SSI benefits would terminate the month after leaving the U.S. Under the new law, these veterans will receive 75 percent of their benefits. The authority remains available as long as there are qualified recipients.

LEGAL ARRANGEMENTS AFFECTING USE OF UNOBLIGATED BALANCES

All OASI and DI Trust Fund receipts collected in the FY are reported as new budget authority on the Combined Statements of Budgetary Resources. As beneficiaries pass the various entitlement tests prescribed by the *Social Security Act*, benefit payments and other outlays are obligated in the OASI and DI Trust Funds. The portion of OASI and DI Trust Fund receipts collected in the FY that exceeds the amount needed to pay benefits and other valid obligations in that FY is precluded by law from being available for obligation. At the end of the FY, this excess of receipts over obligations is reported as Temporarily Not Available Pursuant to Public Law in the SBR; therefore, it is not classified as budgetary resources in the FY collected. However, all such excess receipts are assets of the OASI and DI Trust Funds and currently become available for obligation as needed; therefore, they are not considered non-entity assets. Chart 15b displays OASI and DI Trust Fund activities and balances. The OASI and DI Trust Fund Balances, Ending, are included in Investments on the Consolidated Balance Sheets.

Chart 15b - OASI and DI Trust Fund Activities as of September 30: (\$ in millions)		
	2008	2007
Beginning Balance	\$ 2,108,790	\$ 1,924,920
Receipts	803,017	773,198
Less Obligations	619,933	589,328
Excess of Receipts Over Obligations	183,084	183,870
Ending Balance	\$ 2,291,874	\$ 2,108,790

UNDELIVERED ORDERS AT THE END OF THE PERIOD

Undelivered orders consist of unpaid orders of goods and/or services, which have not been actually or constructively received by SSA. SSA's total undelivered orders are \$1,552 and \$1,481 million for the years ended September 30, 2008 and 2007.

EXPLANATION OF MATERIAL DIFFERENCES BETWEEN THE STATEMENT OF BUDGETARY RESOURCES AND THE BUDGET OF THE UNITED STATES GOVERNMENT

A reconciliation of budgetary resources, obligations incurred and outlays as presented in the Combined Statement of Budgetary Resources, to amounts included in the Budget of the United States Government for the year ended September 30, 2007 has been conducted. There are no material differences between the Combined Statement of Budgetary Resources and the Budget of the United States Government.

16. RECONCILIATION OF NET COST OF OPERATIONS TO BUDGET

Reconciliation of Net Cost of Operations to Budget for the Years Ended September 30, 2008 and 2007 (Dollars in Millions)

	2008	2007
Resources Used to Finance Activities:		
Budgetary Resources Obligated		
Obligations Incurred	\$ 696,872	\$ 661,815
Offsetting Collections and Recoveries	(14,903)	(14,190)
Obligations Net of Offsetting Collections and Recoveries	681,969	647,625
Offsetting Receipts	(21,198)	(22,400)
Net Obligations	660,771	625,225
Other Resources		
Imputed Financing	496	541
Other	(284)	(249)
Net Other Resources Used to Finance Activities	212	292
Total Resources Used to Finance Activities	660,983	625,517
Resources Not Part of the Net Cost of Operations:		
Change in Budgetary Resources Obligated, Not Yet Provided	(50)	238
Resources that Fund Expenses Recognized in Prior Periods	0	(3)
Budgetary Offsetting Collections and Receipts that Do Not Affect Net Cost of Operations	21,178	21,461
Resources that Finance the Acquisition of Assets	(584)	(492)
Other Resources or Adjustments to Net Obligated Resources that Do Not Affect Net Cost of Operations	(23,197)	(24,666)
Total Resources Not Part of the Net Cost of Operations	(2,653)	(3,462)
Total Resources Used to Finance the Net Cost of Operations	658,330	622,055
Components of the Net Cost of Operations that Will Not Require or Generate Resources in the Current Period:		
Components Requiring or Generating Resources in Future Periods		
Increase in Annual Leave Liability	12	0
Other	165	386
Total Components of Net Cost of Operations that Will Require or Generate Resources in Future Periods	177	386
Components Not Requiring or Generating Resources		
Depreciation and Amortization	355	296
Other	(471)	30
Total Components of Net Cost of Operations that Will Not Require or Generate Resources	(116)	326
Total Components of Net Cost of Operations that Will Not Require or Generate Resources in the Current Period	61	712
Net Cost of Operations	\$ 658,391	\$ 622,767

Chart 16, presents a reconciliation between SSA's budgetary and proprietary accounting. This reconciliation shows the relationship between the net obligations derived from the Statement of Budgetary Resources and net costs of

operations derived from the Statement of Net Costs by identifying and explaining key items that affect one statement but not the other.

17. SOCIAL INSURANCE DISCLOSURES

The Statement of Social Insurance discloses the actuarial present value for the 75-year projection period of the estimated future tax income, estimated future cost, and the excess of income over cost for the “open group” of participants. The open group of participants includes all current and future participants (including those born during the projection period) who are now participating or are expected to eventually participate in the OASI and or DI Social Insurance programs.

Actuarial present values are computed on the basis of the intermediate economic and demographic assumptions specified in the 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (the Trustees Report) for the 75-year projection period beginning January 1, 2008. Similar estimates are shown in the Statement of Social Insurance based on the prior four Trustees Reports reflecting actuarial present values at January 1 of the applicable year.

Estimated future tax income consists of payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; and miscellaneous reimbursements from the General Fund of the Treasury. It does not include interest income on assets held in the combined OASI and DI Trust Fund. The estimated future cost includes benefit amounts scheduled under current law, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries.

In addition to the actuarial present value of estimated future excess of income over cost, shown in the basic financial statements, for the open group of participants, it is possible to make a similar calculation for a “closed group” of participants. The closed group of participants considered here consists of those who, in the starting year of the projection period, have attained age 15 or higher. This closed group is further divided into those who have attained retirement eligibility age in the starting year of the projection period and those who attained age 15 through 61 in the starting year of the projection period. In order to calculate the actuarial present value of estimated future excess of income over cost for the closed group, one would subtract the actuarial present value of estimated future cost for or on behalf of the specified group of current participants from the actuarial present value of estimated future tax income for that group of participants.

Also included in the Statement of Social Insurance as “additional information” for the open group are: (1) the actuarial present value of the excess of estimated future income over the estimated future cost; (2) the combined OASI and DI Trust Fund assets at the start the period; and (3) the sum of (1) and (2). While this additional information is not required by the applicable accounting standards, we believe their inclusion enhances evaluation of the financial status of the program.

Combined OASI and DI Trust Fund assets represent the accumulated excess of all past income, including interest on prior combined OASI and DI Trust Fund assets, over all past expenditures for the social insurance program. The combined OASI and DI Trust Fund assets as of January 1, 2008 totaled \$2,238 billion and were comprised almost entirely of investment securities which are backed by the full faith and credit of the Federal Government.

The actuarial present value, for a 75-year projection period, of estimated future excess of income over cost, plus the combined OASI and DI Trust Fund assets at the start of the period, is shown as a negative value which represents the magnitude of what is commonly referred to as the “open group unfunded obligation” of the program over the 75-year projection period. This value is included in the applicable Trustees Report and is also shown in the Report as a percentage of taxable payroll and gross domestic product over the period.

It is important to note that the open group unfunded obligation actually represents the amount of benefits scheduled in the law that would not be payable in the years after the assets in the combined OASI and DI Trust Fund become

exhausted. The OASDI program lacks borrowing authority. Thus, when reserves in the combined OASI and DI Trust Fund are depleted, the amount of money available to pay benefits and other expenses would be limited to current tax income. Therefore, barring legislative action, this unfunded obligation represents a burden that would be borne through reductions in the level of scheduled benefits and/or delays in the payment of these benefits.

ASSUMPTIONS USED FOR THE STATEMENT OF SOCIAL INSURANCE

The estimates used in this presentation for the current year (2008) are based on the assumption that the income and cost of the programs will continue at the levels scheduled under current law. They are also based on various economic and demographic assumptions, including those in the following table:

Table 1: Significant Assumptions and Summary Measures Used for the Statement of Social Insurance 2008

	Total Fertility Rate ¹	Age-Sex-Adjusted Death Rate ² (per 100,000)	Period Life Expectancy At Birth ³		Net Annual Immigration (persons per year) ⁴	Real-Wage Differential ⁵ (percentage points)	Annual Percentage Change In:				Average Annual Interest Rate ¹⁰
			Male	Female			Average Annual Wage in Covered Employment ⁶	CPI ⁷	Total Employment ⁸	Real GDP ⁹	
2008	2.06	822.2	75.4	79.9	1,250,000	1.3	4.1	2.8	0.4	2.3	4.4%
2010	2.06	812.2	75.7	80.0	1,195,000	1.3	4.0	2.8	0.9	2.7	5.6%
2020	2.03	750.5	76.9	80.9	1,130,000	1.1	3.9	2.8	0.5	2.2	5.7%
2030	2.01	689.8	78.0	81.8	1,085,000	1.1	3.9	2.8	0.4	2.1	5.7%
2040	2.00	635.9	79.0	82.6	1,050,000	1.1	3.9	2.8	0.5	2.2	5.7%
2050	2.00	588.6	80.0	83.4	1,035,000	1.1	3.9	2.8	0.4	2.1	5.7%
2060	2.00	546.8	80.8	84.2	1,030,000	1.1	3.9	2.8	0.4	2.1	5.7%
2070	2.00	509.8	81.7	84.9	1,025,000	1.1	3.9	2.8	0.4	2.1	5.7%
2080	2.00	476.8	82.4	85.6	1,025,000	1.1	3.9	2.8	0.4	2.1	5.7%

1. The total fertility rate for a year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age assumed for the selected year, and if she were to survive the entire childbearing period.
2. The age-sex-adjusted death rate is the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex assumed for the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
3. The period life expectancy for a group of persons born in the selected year is the average that would be attained by such persons if the group were to experience in succeeding years the death rates by age assumed for the given year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
4. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
5. The real-wage differential is the difference between the percentage increases in the average annual wage in covered employment and the average annual Consumer Price Index (CPI).
6. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year, divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
7. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W).
8. Total employment represents total of civilian and military employment in the U.S. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.
9. The real Gross Domestic Product (GDP) is the value of total output of goods and services in the U.S. economy, expressed in 2000 dollars. It is a summary measure and not a basic assumption; it summarizes the effects of the basic assumptions from which it is derived.
10. The average annual interest rate is the average of the nominal interest rates, which are compounded semiannually, for special public-debt obligations issuable to the OASI and DI Trust Funds in each of the 12 months of the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived.

The estimates used in the Statement of Social Insurance for the current year and in corresponding Statements in prior years are based on various economic and demographic assumptions. The values for each of these assumptions move from recently experienced levels or trends toward long-range ultimate values within 25 years from the start of the projection period. These ultimate values are summarized in Table 2. Detailed information, similar to that denoted within Table 1, is available on the SSA website at: <http://www.ssa.gov/finance/> for the prior four years.

Table 2: Significant Ultimate Assumptions and Summary Measures Used for the Statement of Social Insurance for Current and Prior Years

Year of Statement	Total Fertility Rate ¹	Average Annual Percentage Reduction in the Age-Sex Adjusted Death Rates ²	Net Annual Immigration (persons per year) ³	Real-Wage Differential ⁴ (percentage points)	Average Annual Percentage Change In:			Average Annual Real Interest Rate ⁸
					Average Annual Wage in Covered Employment ⁵	CPI ⁶	Total Employment ⁷	
FY 2008	2.0	0.75	1,070,000	1.1	3.9	2.8	0.5	2.9
FY 2007	2.0	0.71	900,000	1.1	3.9	2.8	0.4	2.9
FY 2006	2.0	0.72	900,000	1.1	3.9	2.8	0.4	2.9
FY 2005 unaudited	1.95	0.72	900,000	1.1	3.9	2.8	0.3	3.0
FY 2004 unaudited	1.95	0.72	900,000	1.1	3.9	2.8	0.4	3.0

1. The total fertility rate for a year is the average number of children who would be born to a woman in her lifetime if she were to experience the birth rates by age assumed for, the selected year, and if she were to survive the entire childbearing period. The ultimate total fertility rate is assumed to be reached in the 25th year of the projection period. For the 2006 estimates, the ultimate total fertility rate was increased from 1.95 to 2.0.
2. The age-sex-adjusted death rate is computed as the crude rate that would occur in the enumerated total population as of April 1, 2000, if that population were to experience the death rates by age and sex for the selected year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The value presented is the average annual percentage reduction for each 75-year projection period. The annual rate of reduction declines gradually during the period, so no ultimate rate is achieved. For the 2008 Statement, the average annual rate of reduction is computed based on death-rate levels, as shown in Table 1. For the 2008 estimates, the average annual percentage reduction in death rates increased largely due to the increased ultimate assumed rate of mortality reduction for ages 15-64.
3. Net annual immigration is the number of persons who enter during the year (both legally and otherwise) minus the number of persons who leave during the year. The value in the table is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. For the 2008 Statement, the ultimate level of net legal immigration was increased from 600,000 to 750,000 persons per year. In addition, the method for projecting annual net other immigration was changed and the annual level of net immigration now varies throughout the projection period. For the 2008 Statement, the value shown is the average net immigration level projected for the 75 year projection period based on the levels shown in Table 1. For the 2003-2007 Statements, the ultimate assumption is shown in the table and is reached by the 20th year of the projection period.
4. The real-wage differential is the difference between the percentage increases in the average annual wage in covered employment, and the average annual Consumer Price Index (CPI). Except for minor fluctuations, the ultimate assumption is reached within the first 10 years of the projection period.
5. The average annual wage in covered employment is the total amount of wages and salaries for all employment covered by the OASDI program in a year divided by the number of employees with any such earnings during the year. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The annual rate of change stabilizes after the first 10 years of the projection period except for minor fluctuations.
6. The CPI is the annual average value for the calendar year of the CPI for Urban Wage Earners and Clerical Workers (CPI-W). The ultimate assumption is reached within the first 10 years of the projection period. For the 2004 estimates, the assumption was decreased from 3.0 to 2.8 percent.
7. Total employment represents total of civilian and military employment in the U.S. It is a summary measure and not a basic assumption; it summarizes the basic assumptions from which it is derived. The average annual percentage change in total employment is for the entire 75-year projection period. The annual rate of increase tends to decline through the period reflecting the slowing growth rate of the working-age population. Thus, no ultimate rate of change is achieved. For the 2008 Statement, the average annual rate of change is consistent with the annual percentages as shown in Table 1.

8. The average annual real interest rate reflects the expected annual real yield for each year on securities issuable in the prior year. The ultimate rate is assumed to be reached within the first 10 years of the projection period. For the 2006 Statement, the assumption was decreased from 3.0 to 2.9 percent. For the 2008 Statement, the average annual real interest rate is consistent with the nominal interest rates shown in Table 1.

These assumptions and the other values on which Table 2 is based reflect the intermediate assumptions of the 2008-2004 Trustees Reports. Estimates made in prior years differ substantially because of revisions to the assumptions based on changes in conditions or experience, and to changes in actuarial methodology. It is reasonable to expect more changes for similar reasons in future reports.

Additional information on Social Insurance is contained in the *Required Supplementary Information: Social Insurance* of this report.

18. RECOVERY OF MEDICARE PREMIUMS

SSA identified a systemic and recurring error in the process for recovering certain transfers to the Centers for Medicare and Medicaid Services (CMS) of Medicare Part B premiums. Beneficiaries of OASDI may elect to have SSA withhold their monthly Medicare premium. In these cases, SSA acts as an intermediary by collecting Medicare premiums through withholdings from social security payments. The premiums are then transferred to CMS. If notification of a beneficiary's death is not received timely, payments may be disbursed after a beneficiary's death and Medicare premium transfers made to CMS. SSA has procedures in place to recover overpayments made to beneficiaries, but prior to December 2002, SSA generally did not have procedures to recover Medicare premiums transferred to CMS. As a result, SSA estimates that approximately \$800 million of premiums were transferred to CMS since the inception of the Medicare program through November 2002. SSA and Health and Human Services are currently conducting research to determine the most appropriate legal resolution to this issue.

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**Other Accompanying Information: Balance Sheet by Major Program
as of September 30, 2008
(Dollars in Millions)**

Assets	OASI	DI	SSI	Other	LAE	Intra-Agency Eliminations	Consolidated
Intragovernmental:							
Fund Balance with Treasury	\$ (329)	\$ (356)	\$ 4,531	\$ 3,048	\$ 55	\$ 0	\$ 6,949
Investments	2,150,651	216,487	0	0	0	0	2,367,138
Interest Receivable, Net	26,403	2,709	0	0	0	0	29,112
Accounts Receivable, Net	4	2	0	72	2,514	(2,167)	425
Total Intragovernmental	2,176,729	218,842	4,531	3,120	2,569	(2,167)	2,403,624
Accounts Receivable, Net	2,488	3,005	5,346	0	28	(1,936)	8,931
Property, Plant, and Equipment, Net	0	0	0	0	2,121	0	2,121
Other	0	0	0	0	4	0	4
Total Assets	\$ 2,179,217	\$ 221,847	\$ 9,877	\$ 3,120	\$ 4,722	\$ (4,103)	\$ 2,414,680
Liabilities							
Intragovernmental:							
Accrued Railroad Retirement Interchange	\$ 3,497	\$ 440	\$ 0	\$ 0	\$ 0	\$ 0	\$ 3,937
Accounts Payable	669	634	5,810	3,062	36	(2,167)	8,044
Other	0	0	145	1	110	0	256
	4,166	1,074	5,955	3,063	146	(2,167)	12,237
Benefits Due and Payable	46,418	24,116	4,529	0	0	(1,936)	73,127
Accounts Payable	0	9	401	0	13	0	423
Other	0	0	411	3	987	0	1,401
Total Liabilities	50,584	25,199	11,296	3,066	1,146	(4,103)	87,188
Net Position							
Unexpended Appropriations-Earmarked Funds	0	0	0	54	0	0	54
Unexpended Appropriations-Other Funds	0	0	1,719	0	5	0	1,724
Cumulative Results of Operations-Earmarked Funds	2,128,633	196,648	12	0	0	0	2,325,293
Cumulative Results of Operations-Other Funds	0	0	(3,150)	0	3,571	0	421
Total Net Position	2,128,633	196,648	(1,419)	54	3,576	0	2,327,492
Total Liabilities and Net Position	\$ 2,179,217	\$ 221,847	\$ 9,877	\$ 3,120	\$ 4,722	\$ (4,103)	\$ 2,414,680

Other Accompanying Information: Schedule of Net Cost for the Year Ended September 30, 2008
(Dollars in Millions)

	Program	LAE	Total
OASI Program			
Benefit Payments	\$ 505,221	\$ 0	\$ 505,221
Operating Expenses	702	2,677	3,379
Total Cost of OASI Program	505,923	2,677	508,600
Less: Exchange Revenues	1	11	12
Net Cost of OASI Program	505,922	2,666	508,588
DI Program			
Benefit Payments	104,103	0	104,103
Operating Expenses	233	2,467	2,700
Total Cost of DI Program	104,336	2,467	106,803
Less: Exchange Revenues	20	10	30
Net Cost of DI Program	104,316	2,457	106,773
SSI Program			
Benefit Payments	38,349	0	38,349
Operating Expenses	107	3,025	3,132
Total Cost of SSI Program	38,456	3,025	41,481
Less: Exchange Revenues	284	13	297
Net Cost of SSI Program	38,172	3,012	41,184
Other			
Benefit Payments	10	0	10
Operating Expenses	(3)	1,847	1,844
Total Cost of Other	7	1,847	1,854
Less: Exchange Revenues	0	8	8
Net Cost of Other	7	1,839	1,846
Total Net Cost			
Benefit Payments	647,683	0	647,683
Operating Expenses	1,039	10,016	11,055
Total Cost	648,722	10,016	658,738
Less: Exchange Revenues	305	42	347
Total Net Cost	\$ 648,417	\$ 9,974	\$ 658,391

Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2008

(Dollars in Millions)

	OASI	DI	SSI	
	Cumulative Results of Operations	Cumulative Results of Operations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances				
Earmarked Funds	\$ 1,946,664	\$ 193,947	\$ 6	\$ 0
All Other Funds	0	0	(3,012)	2,207
Beginning Balances, Total	1,946,664	193,947	(3,006)	2,207
Budgetary Financing Sources				
Appropriations Received				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	0	43,811
Other Adjustments				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	0	(54)
Appropriations Used				
Earmarked Funds	0	0	0	0
All Other Funds	0	0	44,245	(44,245)
Tax Revenues-Earmarked Funds	573,750	97,432	0	
Interest Revenues-Earmarked Funds	104,083	11,022	0	
Transfers In/Out Without Reimbursement				
Earmarked Funds	13,768	(1,046)	(133)	
All Other Funds	0	0	(2,878)	
Railroad Retirement Interchange - Earmarked Funds	(3,730)	(454)	0	
Net Transfers In/Out				
Earmarked Funds	10,038	(1,500)	(133)	
All Other Funds	0	0	(2,878)	
Other Budgetary Financing Sources-				
Earmarked Funds	20	63	0	
Other Financing Sources (Non-Exchange)				
Transfers In/Out-All Other Funds	0	0	(3,056)	
Imputed Financing Sources-All Other Funds	0	0	7	
Other				
Earmarked Funds	0	0	0	
All Other Funds	0	0	(145)	
Total Financing Sources				
Earmarked Funds	687,891	107,017	(133)	0
All Other Funds	0	0	38,173	(488)
Net Cost of Operations				
Earmarked Funds	505,922	104,316	(139)	
All Other Funds	0	0	38,311	
Net Change				
Earmarked Funds	181,969	2,701	6	0
All Other Funds	0	0	(138)	(488)
Ending Balances				
Earmarked Funds	2,128,633	196,648	12	0
All Other Funds	0	0	(3,150)	1,719
Total All Funds	\$ 2,128,633	\$ 196,648	\$ (3,138)	\$ 1,719

Other Accompanying Information: Schedule of Changes in Net Position for the Year Ended September 30, 2008 (Continued)
(Dollars in Millions)

	Other		LAE		Consolidated	
	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations	Cumulative Results of Operations	Unexpended Appropriations
Beginning Balances						
Earmarked Funds	\$ 0	\$ 57	\$ 0	\$ 0	\$ 2,140,617	\$ 57
All Other Funds	0	0	3,187	15	175	2,222
Beginning Balances, Total	0	57	3,187	15	2,140,792	2,279
Budgetary Financing Sources						
Appropriations Received						
Earmarked Funds	0	17,840	0	0	0	17,840
All Other Funds	0	10	0	26	0	43,847
Other Adjustments						
Earmarked Funds	0	(10)	0	0		(10)
All Other Funds	0	0	0	(2)	0	(56)
Appropriations Used						
Earmarked Funds	17,833	(17,833)	0	0	17,833	(17,833)
All Other Funds	10	(10)	34	(34)	44,289	(44,289)
Tax Revenues-Earmarked Funds	0	0	0		671,182	
Interest Revenues-Earmarked Funds	0	0	0		115,105	
Transfers In/Out Without Reimbursement						
Earmarked Funds	(17,836)	0	0		(5,247)	
All Other Funds	0	0	9,835		6,957	
Railroad Retirement Interchange – Earmarked Funds	0	0	0		(4,184)	
Net Transfers In/Out						
Earmarked Funds	(17,836)		0		(9,431)	
All Other Funds	0		9,835		6,957	
Other Budgetary Financing Sources-						
Earmarked Funds	0		0		83	
Other Financing Sources (Non-Exchange)						
Transfers In/Out-All Other Funds	3,056		0		0	
Imputed Financing Sources-All Other Funds	0		489		496	
Other						
Earmarked Funds	0		0		0	
All Other Funds	(3,056)		0		(3,201)	
Total Financing Sources						
Earmarked Funds	(3)	(3)	0	0	794,772	(3)
All Other Funds	10	0	10,358	(10)	48,541	(498)
Net Cost of Operations						
Earmarked Funds	(3)		0		610,096	
All Other Funds	10		9,974		48,295	
Net Change						
Earmarked Funds	0	(3)	0	0	184,676	(3)
All Other Funds	0	0	384	(10)	246	(498)
Ending Balances						
Earmarked Funds	0	54	0	0	2,325,293	54
All Other Funds	0	0	3,571	5	421	1,724
Total All Funds	\$ 0	\$ 54	\$ 3,571	\$ 5	\$ 2,325,714	\$ 1,778

Required Supplementary Information: Schedule of Budgetary Resources for the Year Ended September 30, 2008
(Dollars in Millions)

	OASI	DI	SSI	Other	LAE	Combined
Budgetary Resources						
Unobligated Balances, Brought Forward, October 1	\$ 0	\$ 0	\$ 2,501	\$ 56	\$ 589	\$ 3,146
Recoveries of Prior Year Unpaid Obligations	2	1	380	0	236	619
Budget Authority						
Appropriations Received	692,923	109,904	43,945	17,850	26	864,648
Spending Authority from Offsetting Collections						
Earned						
Collected	0	0	4,377	8	44	4,429
Change in Receivable	0	0	(1)	0	2	1
Change in Unfilled Customer Orders						
Advance Received	0	0	18	0	1	19
Expenditure Transfers from Trust Funds	0	0	0	0	9,835	9,835
Subtotal	692,923	109,904	48,339	17,858	9,908	878,932
Nonexpenditure Transfers, Net	139	50	0	0	0	189
Temporary Not Available Pursuant to Public Law	(180,586)	(2,498)	(2)	0	0	(183,086)
Permanently Not Available	(1)	(1)	(54)	(10)	(2)	(68)
Total Budgetary Resources	\$ 512,477	\$ 107,456	\$ 51,164	\$ 17,904	\$ 10,731	\$ 699,732
Status of Budgetary Resources						
Obligations Incurred						
Direct	\$ 512,477	\$ 107,456	\$ 44,689	\$ 17,846	\$ 9,984	\$ 692,452
Reimbursable	0	0	4,370	5	45	4,420
Subtotal	512,477	107,456	49,059	17,851	10,029	696,872
Unobligated Balances						
Apportioned	0	0	638	21	356	1,015
Unobligated Balances - Not Available	0	0	1,467	32	346	1,845
Total Status of Budgetary Resources	\$ 512,477	\$ 107,456	\$ 51,164	\$ 17,904	\$ 10,731	\$ 699,732
Change in Obligated Balances						
Obligated Balances, Net						
Unpaid Obligations, Brought Forward, October 1	\$ 48,030	\$ 25,048	\$ 1,951	\$ 3	\$ 1,697	\$ 76,729
Uncollected Customer Payments from Federal Sources, Brought Forward, October 1	0	0	(6)	0	(2,278)	(2,284)
Total Unpaid Obligated Balance, Net	48,030	25,048	1,945	3	(581)	74,445
Obligations Incurred, Net	512,477	107,456	49,059	17,851	10,029	696,872
Gross Outlays	(509,921)	(107,240)	(48,401)	(17,848)	(9,622)	(693,032)
Recoveries of Prior Year Unpaid Obligations, Actual	(2)	(1)	(380)	0	(236)	(619)
Change in Uncollected Payments from Federal Sources	0	0	1	0	(239)	(238)
Obligated Balance, Net, End of Period						
Unpaid Obligations	50,584	25,263	2,229	6	1,868	79,950
Uncollected Customer Payments from Federal Sources	0	0	(5)	0	(2,517)	(2,522)
Total Unpaid Obligated Balance, Net, End of Period	\$ 50,584	\$ 25,263	\$ 2,224	\$ 6	\$ (649)	\$ 77,428
Net Outlays						
Net Outlays						
Gross Outlays	\$ 509,921	\$ 107,240	\$ 48,401	\$ 17,848	\$ 9,622	\$ 693,032
Offsetting Collections	0	0	(4,395)	(7)	(9,643)	(14,045)
Distributed Offsetting Receipts	(16,456)	(1,473)	(284)	(2,985)	0	(21,198)
Net Outlays	\$ 493,465	\$ 105,767	\$ 43,722	\$ 14,856	\$ (21)	\$ 657,789

REQUIRED SUPPLEMENTARY INFORMATION: SOCIAL INSURANCE

PROGRAM DESCRIPTION

The Old-Age, Survivors, and Disability Insurance (OASDI) program, collectively referred to as “Social Security,” provides cash benefits for eligible U.S. citizens and residents. At the end of calendar year 2007, OASDI benefits were paid to almost 50 million beneficiaries. Eligibility and benefit amounts are determined under the laws applicable for the period. Current law provides that the amount of the monthly benefit payments for workers, or their eligible dependents or survivors, is based on the workers’ lifetime earnings histories.

The OASDI program is financed largely on a pay-as-you-go basis--that is, OASDI payroll taxes paid each year by current workers are primarily used to pay the benefits provided during that year to current beneficiaries. The retired-worker benefits it pays replaces a larger proportion of earned income for lower earners than for higher earners. The amount of OASDI income and benefits may be altered by changes in laws governing the program.

PROGRAM FINANCES AND SUSTAINABILITY

As discussed in Note 8 to the consolidated financial statements, a liability of \$69 billion as of September 30, 2008 (\$66 billion as of September 30, 2007) is included in “Benefits Due and Payable” on the balance sheet for unpaid amounts of OASDI benefits due to recipients on or before that date. Virtually all of this amount was paid in October 2008. Also, an asset of \$2,367 billion as of September 30, 2008 (\$2,182 billion as of September 30, 2007) is recognized for the “investments in Treasury securities.” These investments are referred to as the combined OASI and DI Trust Fund assets throughout the remainder of this Required Supplementary Information. They represent the accumulated excess for the OASDI program of all past income, including interest, over all past expenditures. They are invested only in securities backed by the full faith and credit of the Federal Government (see Investment Note 5).

No liability has been recognized on the balance sheet for future payments to be made to current and future program participants beyond the unpaid amounts as of September 30, 2008. This is because OASDI is accounted for as a social insurance program rather than as a pension program. Accounting for a social insurance program recognizes the expense of benefits when they are actually paid, or are due to be paid, because benefit payments are primarily nonexchange transactions and are not considered deferred compensation, as would be employer-sponsored pension benefits for employees. Accrual accounting for a pension program, by contrast, recognizes as a liability retirement benefit expenses as they are earned so that the full estimated actuarial present value of the worker’s expected retirement benefits has been recognized by the time the worker retires.

REQUIRED SUPPLEMENTARY INFORMATION - While no liability has been recognized on the balance sheet for future obligations beyond those due at the reporting date, actuarial estimates are made of the long-range financial condition of the OASDI program and are presented here. Throughout this section, the following terms will generally be used as indicated:

- **income:** payroll taxes from employers, employees, and self-employed persons; revenue from Federal income-taxation of scheduled OASDI benefits; interest income from Treasury securities held as assets of the OASI and DI Trust Funds; and miscellaneous reimbursements from the General Fund of the Treasury;
- **income excluding interest:** income, as defined above, excluding the interest income from Treasury securities held as assets of the OASI and DI Trust Funds;
- **cost:** scheduled benefit payments, administrative expenses, net transfers with the Railroad Retirement program, and vocational rehabilitation expenses for disabled beneficiaries;
- **cashflow:** either income excluding interest, or cost, depending on the context, expressed in nominal dollars;
- **net cashflow:** income excluding interest less cost, expressed in nominal dollars;

- **present value:** the equivalent value, as of a specified point in time and adjusted using a specified interest rate, of a future stream of payments (either income or cost). The present value of a future stream of payments may be thought of as the lump-sum amount that, if invested at the specified interest rate as of the specified point in time, together with interest earnings would be just enough to meet each of the obligations as they fall due.

All estimates in this section are based on the 75-year projections under the intermediate assumptions in the 2008 Annual Report of the Board of Trustees of the Federal Old-Age and Survivors Insurance and Disability Insurance Trust Funds (2008 Trustees Report) (see Note 17 to the Statement of Social Insurance). The Statement of Social Insurance and the required supplementary information below are derived from estimates of future income and cost based on these assumptions and on the current *Social Security Act*, including future changes previously enacted. This information includes:

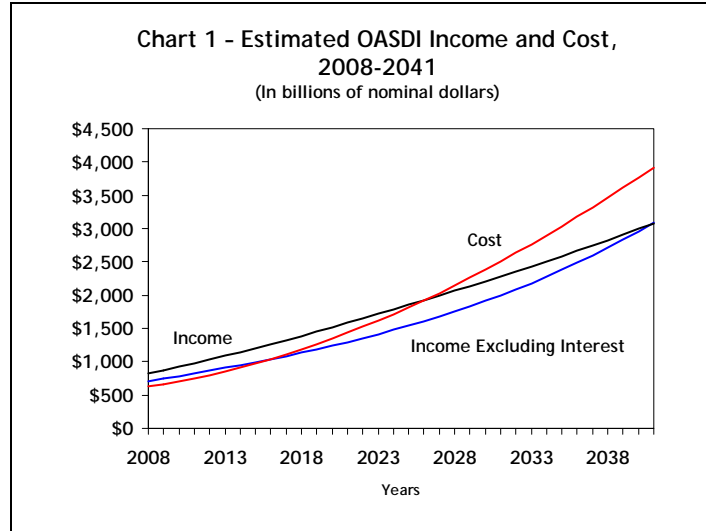
- (1) actuarial present values of future estimated cost for, and estimated income (excluding interest) from, or on behalf of, current and future program participants;
- (2) estimated annual income (excluding interest) and cost in nominal dollars and as percentages of taxable payroll and GDP;
- (3) the ratio of estimated covered workers to estimated beneficiaries; and
- (4) an analysis of the sensitivity of the projections to changes in selected assumptions.

SUSTAINABLE SOLVENCY - Based on the estimates of income and cost presented in the Statement of Social Insurance, the OASDI program would not meet the criteria for sustainable solvency. In order to meet the criteria for sustainable solvency, the program would need to be able to pay all scheduled benefits in full on a timely basis and maintain assets in the combined OASI and DI Trust Funds at all times within the 75-year projection period. In addition, the assets in the combined OASI and DI Trust Funds would need to be stable or rising as a percentage of annual program cost at the end of the period.

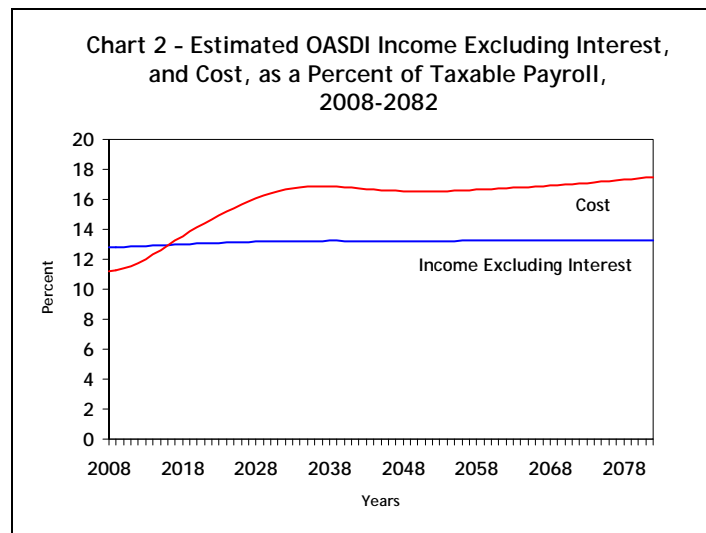
CASHFLOW PROJECTIONS - Chart 1 shows actuarial estimates of OASDI annual income, income excluding interest, and cost for 2008-2041 in nominal dollars. These estimates are only displayed through 2041, the year that the combined OASI and DI Trust Funds are projected to become exhausted. At the point of such exhaustion, no interest earnings would be available. Moreover, because the program lacks the authority to borrow to continue paying benefits, benefit payments would be limited to the available tax income. Thus, extension of this chart, which is intended to illustrate the tax revenue and interest accruals available to meet the cost of scheduled benefit obligations under the program, beyond the point of combined OASI and DI Trust Fund exhaustion, would be inappropriate unless the cost of scheduled benefits was replaced by the amount of benefits that would be payable.

The estimates are for the open-group population, all persons projected to participate in the OASDI program as covered workers or beneficiaries, or both, during that period. Thus, the estimates include payments from, and on behalf of, workers who will enter covered employment during the period as well as those already in covered employment at the beginning of that period. They also include cost on behalf of such workers during that period.

As chart 1 shows, estimated cost starts to exceed income (including interest) in 2027. This occurs because of a variety of factors including the retirement of the “baby boom” generation, the relatively small number of people born during the subsequent period of lower birth rates, and the projected increases in life expectancy, which increase the average number of years of receiving benefits relative to the average number of years of paying taxes. Estimated cost starts to exceed income excluding interest in 2017. At that time, to meet all OASDI cost on a timely basis, the combined OASI and DI Trust Funds will need to redeem Treasury securities. This redemption will differ from that of prior years when the combined OASI and DI Trust Funds had been net lenders to the General Fund of the Treasury. To finance this redemption, the government would have to increase its borrowing from the public, raise taxes (other than OASDI payroll taxes), and/or reduce expenditures (other than OASDI cost). Alternatively, the government could make this redemption unnecessary by changing the law to increase OASDI taxes and/or reduce OASDI scheduled benefits.



PERCENTAGE OF TAXABLE PAYROLL - Chart 2 shows estimated annual income excluding interest and cost expressed as percentages of taxable payroll. As presently constructed, the program receives most of its income from the 6.2 percent payroll tax that employees and employers each pay on taxable wages and salaries (for a combined payroll tax rate of 12.4 percent), and the 12.4 percent that is paid on taxable self-employment income. Prior to 2017, estimated annual cost is less than estimated annual income, excluding interest, whereas thereafter it is more. After 2017, estimated cost, expressed as a percentage of taxable payroll, increases rapidly through 2030 and is rising steadily at the end of the 75-year period. The estimated income at the end of the 75-year period is sufficient to cover 75 percent of the estimated cost.

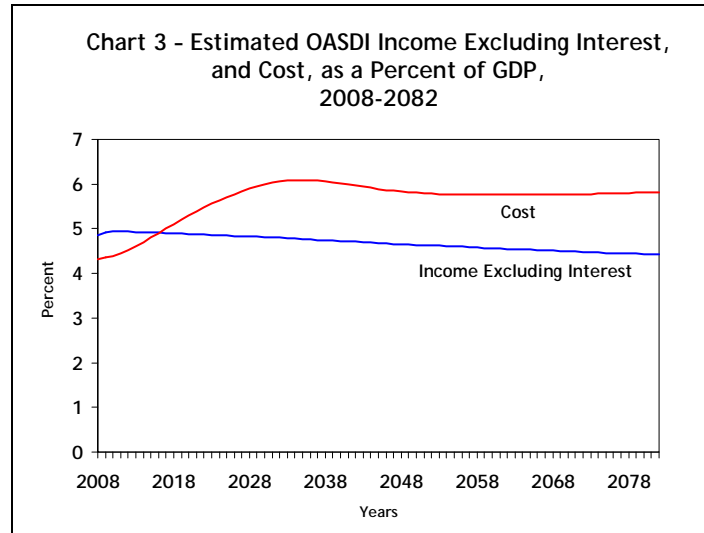


ACTUARIAL BALANCE - The Statement of Social Insurance shows that the present value of the excess of income (excluding interest) over cost for the 75-year period is -\$6,555 billion. If augmented by the combined OASI and DI Trust Fund assets at the start of the period (January 1, 2008), it is -\$4,316 billion. This excess does not equate to the actuarial balance in the Trustees Report of -1.70 percent of taxable payroll because the actuarial balance includes the cost of attaining a target combined OASI and DI Trust Fund level by the end of the period.

One interpretation of this negative actuarial balance (-1.70 percent of taxable payroll) is that it represents the magnitude of the increase in the average combined payroll tax rate for the 75-year period that would result in an actuarial balance of zero. The combined payroll tax rate is 12.4 percent today and is currently scheduled to remain

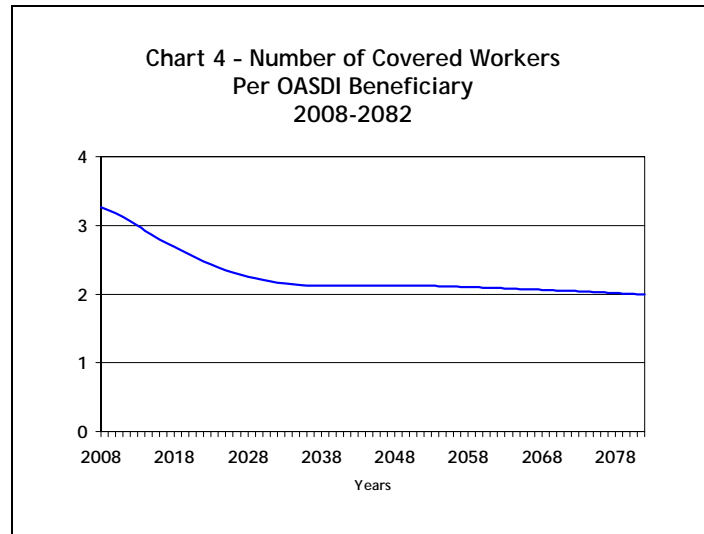
at that level. An increase of 1.70 percentage points in this rate for each year of the 75-year projection period (0.85 percentage points for employees and employers each, resulting in a total rate of 14.10 percent or a rate of 7.05 percent for each) is estimated to produce enough income to pay all benefits due under current law for that period. Alternatively, all benefits during this period could be reduced by about 11.5 percent on average (or there could be some combination of both tax increases and benefit reductions) to achieve the same effect.

PERCENTAGE OF GROSS DOMESTIC PRODUCT (GDP) - Chart 3 shows estimated annual income excluding interest and cost expressed as percentages of GDP. Analyzing these cashflows in terms of percentage of the estimated GDP, which represents the total value of goods and services produced in the United States, provides a measure of the cost of the OASDI program in relation to the size of the national economy that must finance it.



In 2007, OASDI cost was about \$595 billion, which was about 4.3 percent of GDP. The cost of the program (based on current law) rises rapidly to 6.0 percent of GDP in 2030, hits a peak of 6.1 percent of GDP in 2035, and then gradually decreases to 5.8 percent of GDP by 2082. The increase will occur because baby boomers will become eligible for OASDI benefits, lower birth rates will result in fewer workers per beneficiary, and beneficiaries will continue to live longer.

RATIO OF WORKERS TO BENEFICIARIES - Chart 4 shows the estimated number of covered workers per OASDI beneficiary using the Trustees' intermediate assumptions. As defined by the Trustees, covered workers are persons having earnings creditable for OASDI purposes on the basis of services for wages in covered employment and/or on the basis of income from covered self-employment. The estimated number of workers per beneficiary will decline from 3.3 in 2007 to 2.0 in 2082.



SENSITIVITY ANALYSIS

Projections of the future financial status of the OASDI program depend on many demographic and economic assumptions, including fertility, mortality, net immigration, average wages, inflation, and interest rates on Treasury securities. The income will depend on how these factors affect the size and composition of the working population and the level and distribution of wages and earnings. Similarly, the cost will depend on how these factors affect the size and composition of the beneficiary population and the general level of benefits. Because perfect long-range projections of these factors are impossible, this section is included to illustrate the sensitivity of the long-range projections to changes in assumptions by analyzing six key assumptions: total fertility rate, mortality, net immigration, real-wage differential, consumer price index, and real interest rate. The range of values chosen for the sensitivity analysis is intended to present a reasonable range within which future experience is generally expected to fall, on average over long time periods. The range of values is not intended to represent any particular probability interval around the intermediate assumptions.

For this analysis, the intermediate assumptions in the 2008 Trustees Report are used as the reference point, and each selected assumption is varied individually. All present values are calculated as of January 1, 2008, and are based on estimates of income and cost during the 75-year projection period 2008-2082. In this section, for brevity, “income” means “income excluding interest.”

For each assumption analyzed, one table and two charts are presented. The table shows the present value of the estimated excess of OASDI income over cost based on each of three selected values of the assumption being analyzed. The middle values provided correspond to the intermediate assumption of the Trustees. The first chart shows estimated annual OASDI net cashflow based on each of those values. The second chart, labeled with the suffix “A,” shows the present value of each net cashflow amount shown in the first chart and is included to facilitate interpreting net cashflow in terms of today’s dollar. Because the calculation of present values is a discounting process, the magnitude of the present value for each year in the second chart is lower than the corresponding net cashflow amount in the first chart--positive values are less positive and negative values are less negative.

Sensitivity of program cost to changes in multiple assumptions is also useful. The Trustees Reports present high-cost and low-cost alternative assumption sets which combine the variations shown individually in this report. It should be noted that due to interactions, the combined effect of two or more assumption changes may not be equal to the sum of the effects shown separately. The Trustees, in their annual report, also include estimates using a stochastic model developed by the Office of the Chief Actuary. These estimates provide an additional way of analyzing variability in assumptions, income, and cost.

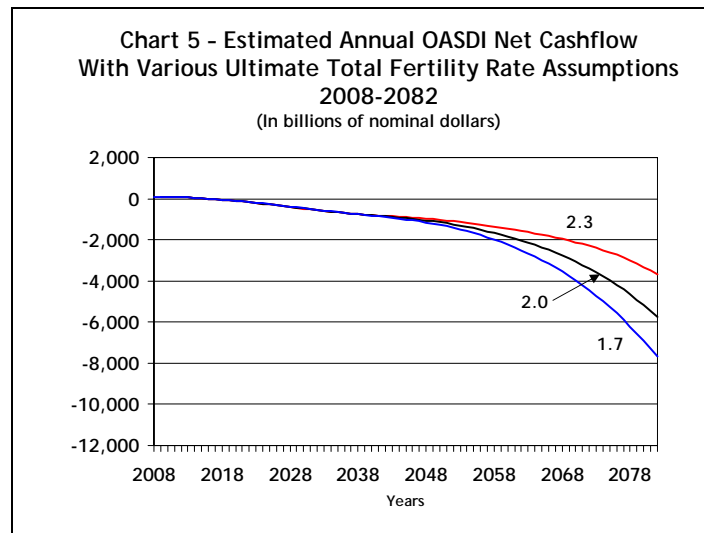
TOTAL FERTILITY RATE - Table 1 shows the present value of the estimated excess of OASDI income over cost for the 75-year period, for each of the assumptions about the ultimate total fertility rate. These assumptions are 1.7, 2.0, and 2.3 children per woman, where 2.0 is the intermediate assumption in the 2008 Trustees Report. The total fertility rate is assumed to change gradually from its current level and to reach the selected ultimate value in 2032.

Table 1 demonstrates that, if the ultimate total fertility rate is changed from 2.0 children per woman, the Trustees' intermediate assumption, to 1.7, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,423 billion, from \$6,555 billion; if the ultimate rate were changed to 2.3, the shortfall would decrease to \$5,702 billion.

**Table 1: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Total Fertility Rate Assumptions
Valuation Period: 2008-2082**

Ultimate Total Fertility Rate	1.7	2.0	2.3
Present Value of Estimated Excess (In billions)	-\$7,423	-\$6,555	-\$5,702

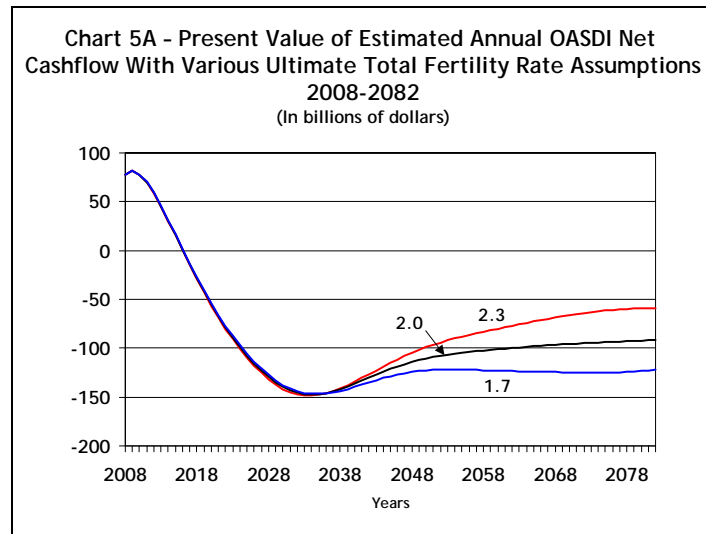
Charts 5 and 5A show estimates using the same total fertility rates used for the estimates in Table 1. Chart 5 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 5 are similar. After increasing in the first two years, the net cashflow estimates decrease steadily through 2082. The net cashflow estimates corresponding to a 2.0 and 1.7 ultimate total fertility rate remain positive through 2016; whereas the estimates corresponding to a 2.3 ultimate total fertility rate remain positive through 2015. All are increasingly negative thereafter. While the fertility rate would have a substantial effect for the next 75-year period as a whole, it would have only a minor effect for the first 33 years before the combined OASI and DI Trust Funds are projected to become depleted under each of these fertility assumptions.

In the early years, higher fertility rates result in both reduced payroll taxes and increased benefits and, therefore, lower net cashflow. As the larger birth cohorts age and enter the labor force, however, the effect on payroll taxes gradually changes from a reduction to a net increase. By 2037 and for all years thereafter, increased payroll taxes more than offset increased benefits. Thus, from 2037 on, annual net cashflow based on higher fertility rates is higher (less negative) than annual net cashflow based on lower fertility rates.

Chart 5A shows the present value of the estimated annual OASDI net cashflow.



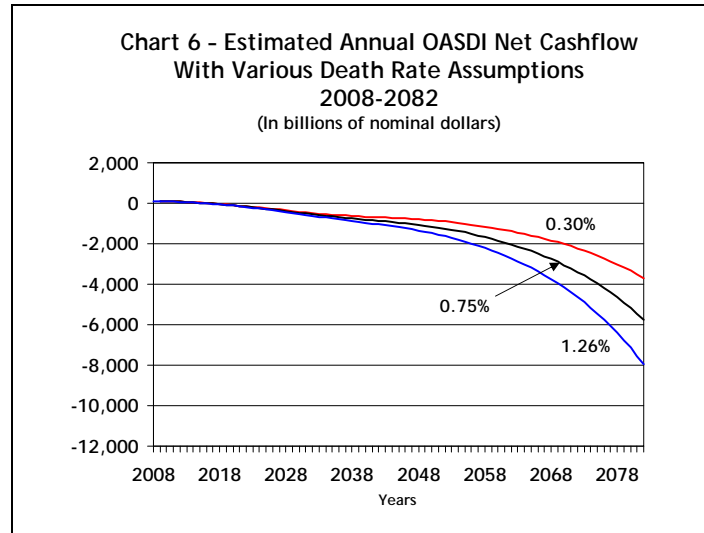
The three patterns of the present values shown in Chart 5A are similar. After increasing for one year, the present values decrease rapidly until around 2030. They remain positive through 2016 and are negative thereafter. Present values based on all three ultimate total fertility rates begin to increase (become less negative) in the 2030's (2034 for a total fertility rate of 2.3, 2035 for a total fertility rate of 2.0, and 2035 for a total fertility rate of 1.7). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For example, based on all three ultimate total fertility rates, it would take less of an investment today to cover the annual deficit in 2036 than it would to cover the annual deficit in 2035.

MORTALITY - Table 2 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about future reductions in death rates. The analysis was developed by varying the reduction assumed to occur during 2007-2082 in death rates by age, sex, and cause of death. The reductions assumed for this period, summarized as average annual reductions in the age-sex-adjusted death rate, are 0.30, 0.75, and 1.26 percent per year, where 0.75 percent is the intermediate assumption in the 2008 Trustees Report. (The resulting cumulative decreases in the age-sex-adjusted death rate during the same period are 20, 43, and 61 percent, respectively.) The life expectancy at birth, on a unisex period life table basis, is projected to rise from 77.5 in 2007 to 80.5, 84.1, and 87.9 in 2082 for average annual reductions in the age-sex-adjusted death rate of 0.30, 0.75, and 1.26 percent, respectively.

Table 2 demonstrates that, if the annual reduction in death rates is changed from 0.75 percent, the Trustees' intermediate assumption, to 0.30 percent, meaning that people die younger, the shortfall for the period of estimated OASDI income relative to cost would decrease to \$4,885 billion, from \$6,555 billion; if the annual reduction were changed to 1.26 percent, meaning that people live longer, the shortfall would increase to \$8,301 billion.

Table 2: Present Value of Estimated Excess of OASDI Income over Cost With Various Death Rate Assumptions Valuation Period: 2008-2082			
Average Annual Reduction in Death Rates (from 2007 to 2082)	0.30 Percent	0.75 Percent	1.26 Percent
Present Value of Estimated Excess (In billions)	-\$4,885	-\$6,555	-\$8,301

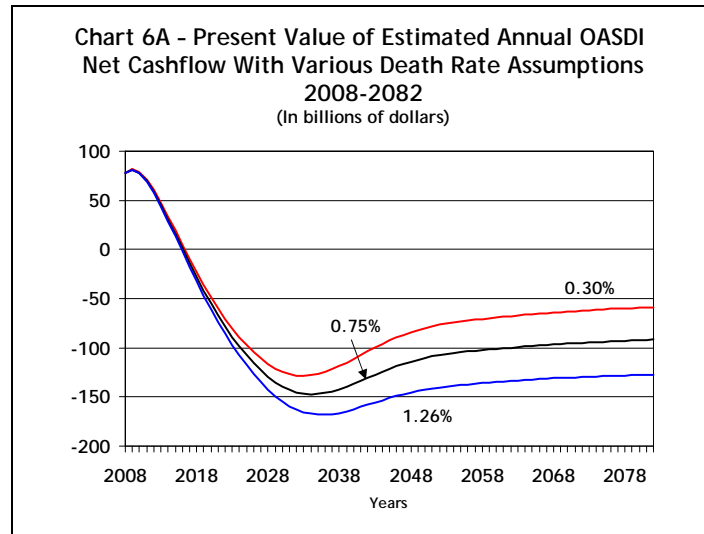
Charts 6 and 6A show estimates using the same assumptions about future reductions in death rates used for the estimates in Table 2. Chart 6 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 6 are similar. After increasing in the first two years, the net cashflow estimates decrease steadily through 2082. The net cashflow estimates corresponding to a 0.30 percent and 0.75 percent average annual reduction in death rates remain positive through 2016, whereas the estimates corresponding to a 1.26 percent average annual reduction in death rates only remain positive through 2015. The annual net cashflow estimates for all three estimates are increasingly negative thereafter. Relatively little difference is discernible in the early years among the estimates of annual net cashflow based on the three assumptions about the reduction in death rates. Thereafter, differences become more apparent. Because annual death rates resulting from the three assumptions diverge steadily with time, resulting estimated annual OASDI net cashflows do so, too.

Although lower death rates result in both higher income and higher cost, cost increases more than income. For any given year, reductions in death rates at the earliest retirement eligibility age of 62 and older, which are the ages of highest death rates, increase the number of retired-worker beneficiaries (and, therefore, the amount of retirement benefits) without adding significantly to the number of covered workers (and, therefore, the amount of payroll taxes). At young ages, death rates are so low that even substantial reductions do not result in significant increases in either the number of covered workers or beneficiaries.

Chart 6A shows the present value of the estimated annual OASDI net cashflow.



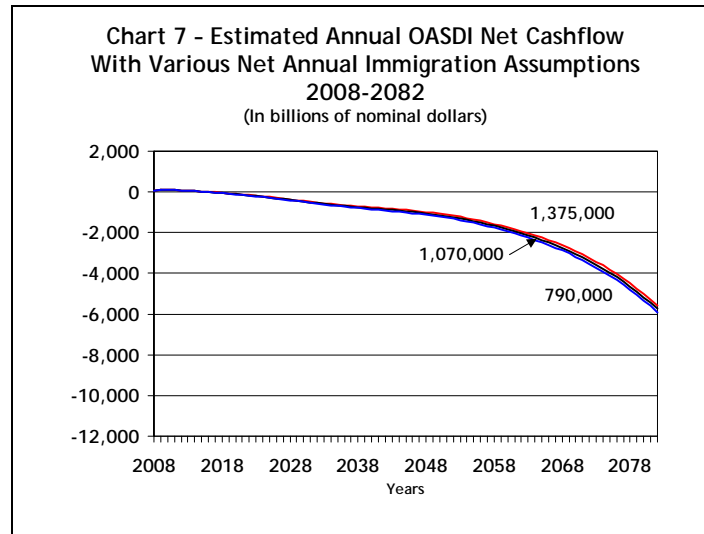
The three patterns of the present values shown in Chart 6A are similar. After increasing for the first year, the present values decrease rapidly until around 2030. They remain positive through 2016 under projected rates of mortality reduction of 0.30 and 0.75 percent, but only through 2015 under a projected rate of mortality reduction of 1.26 percent. Present values based on all three sets of assumptions begin to increase (become less negative) in the 2030's (2034, 2035, and 2037 for projected reductions of 0.30, 0.75, and 1.26 percent per year, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

NET ANNUAL IMMIGRATION - Table 3 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the magnitude of annual immigration. Assumptions are made about the levels of legal immigration, legal emigration, other immigration, and other emigration. Based on the these assumptions, it is projected that net annual immigration (legal and other) will average 790,000 persons, 1,070,000 persons, and 1,375,000 persons over the 75-year valuation period, where 1,070,000 persons is the average value based on the intermediate assumptions in the 2008 Trustees Report.

Table 3 demonstrates that, if the Trustees' intermediate immigration assumptions were changed so that the average level for the 75-year period decreased from 1,070,000 persons to 790,000 persons, the present value of the shortfall for the period of estimated OASDI income relative to cost would increase to \$6,950 billion, from \$6,555 billion. If instead, the immigration assumptions were changed so that net annual immigration would be expected to average 1,375,000 persons, the present value of the shortfall would decrease to \$6,141 billion.

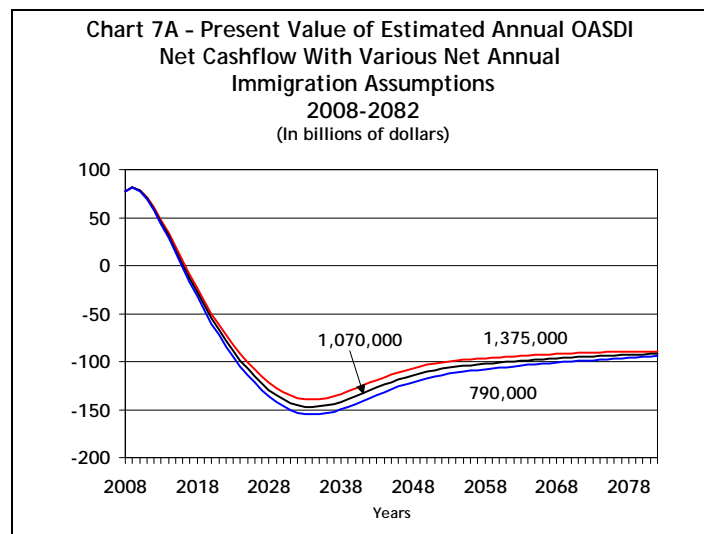
Table 3: Present Value of Estimated Excess of OASDI Income over Cost With Various 75-Year Average Net Annual Immigration Assumptions Valuation Period: 2008-2082			
75-Year Average Net Annual Immigration	790,000 Persons	1,070,000 Persons	1,375,000 Persons
Present Value of Estimated Excess (In billions)	-\$6,950	-\$6,555	-\$6,141

Charts 7 and 7A show estimates using the same assumptions about net annual immigration used for the estimates in Table 3. Chart 7 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow estimates shown in Chart 7 are similar. After increasing in the first two years, the net cashflow estimates decrease steadily through 2082. They remain positive through 2016 for the average annual net immigration levels of 1,070,000 and 1,375,000 persons but only through 2015 for an average net annual immigration level of 790,000 persons. A consistent, but slight, difference is discernible after the first few years of the projection period among the estimates of net cashflow based on the three assumptions about average annual immigration.

Chart 7A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 7A are similar. After increasing for the first year, the present values decrease rapidly until around 2030. They remain positive through 2016 for an average net annual immigration level of 1,070,000 and 1,375,000 persons and through 2015 for an average net annual immigration level of 790,000 persons, after which the present values are negative. Present values based on all three assumptions about net annual immigration begin to increase (become less negative) in 2035 for all three assumptions.

Very little difference is discernible in the early years among the estimates of present values of net annual cashflow based on the three sets of assumptions about annual immigration. However, as the effect of these three levels of net annual immigration accumulate, variations in present values become more apparent. Because immigration generally

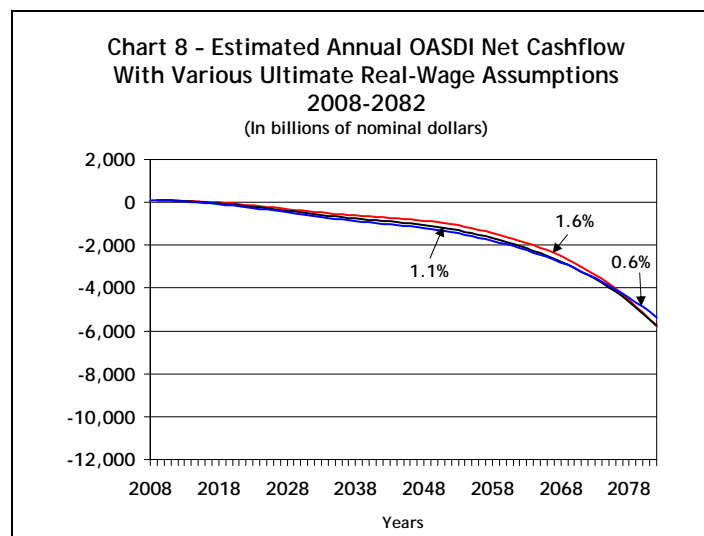
occurs at relatively young adult ages, the effects initially are similar to those of total fertility rates. There is no significant effect on beneficiaries (and, therefore, on benefits) in the early years but the effect on the numbers of workers (and, therefore, on payroll tax income) is immediate. Thus, even in the early years, the present values, year by year, are higher (less negative in later years) for higher net annual immigration. However, the increased payroll taxes for a given year are eventually offset by benefits paid in that year to earlier immigrant cohorts. Thus, the present values based on the three assumptions about net annual immigration become more similar at the end of the projection period.

REAL-WAGE DIFFERENTIAL - The real-wage differential is the difference between the percentage increases in (1) the average annual wage in OASDI covered employment and (2) the average annual Consumer Price Index (CPI). Table 4 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate real-wage differential. These assumptions are that the ultimate real-wage differential will be 0.6, 1.1, and 1.6 percentage points, where 1.1 percentage point is the intermediate assumption in the 2008 Trustees Report. In each case, the ultimate annual increase in the CPI is assumed to be 2.8 percent (as used in the intermediate assumptions), yielding ultimate percentage increases in the average annual wage in covered employment of 3.4, 3.9, and 4.4 percent, respectively.

Table 4 demonstrates that, if the ultimate real-wage differential is changed from 1.1 percentage point, the Trustees' intermediate assumption, to 0.6 percentage point, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,452 billion from \$6,555 billion; if the ultimate real-wage differential were changed from 1.1 to 1.6 percentage points, the shortfall would decrease to \$5,324 billion.

Table 4: Present Value of Estimated Excess of OASDI Income over Cost With Various Ultimate Real-Wage Assumptions Valuation Period: 2008-2082			
Ultimate Annual Increase in Wages, CPI; Real Wage Differential	3.4% , 2.8%; 0.6%	3.9% , 2.8%; 1.1%	4.4% , 2.8%; 1.6%
Present Value of Estimated Excess (In billions)	-\$7,452	-\$6,555	-\$5,324

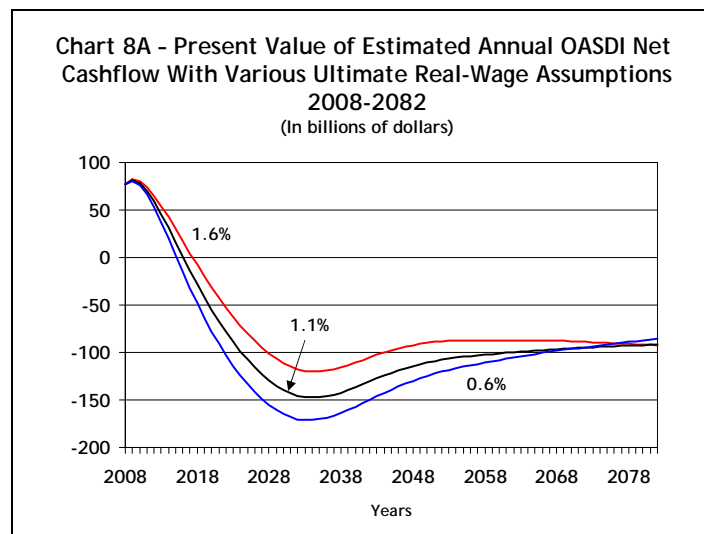
Charts 8 and 8A show estimates using the same assumptions about the ultimate real-wage differential used for the estimates in Table 4. Chart 8 shows the estimated annual OASDI net cashflow.



The three patterns of estimated net annual OASDI cashflow shown in Chart 8 generally increase in the early years, and then decrease steadily thereafter. Estimated net cashflow remains positive through 2015, 2016, and 2017 for assumed ultimate real-wage differentials of 0.6, 1.1, and 1.6 percentage points, respectively, and is negative thereafter.

Differences among the estimates of annual net cashflow based on the three assumptions about the ultimate real-wage differential become apparent early in the projection period. Higher real-wage differentials increase both wages and initial benefit levels. Because the effects on wages and, therefore, on payroll taxes are immediate, while the effects on benefits occur with a substantial lag, annual net cashflow is higher for higher assumed real-wage differentials. In the early years, when the effects on benefits are quite small and the effects on wages are compounding, the patterns of the estimates of annual net cashflow based on the three assumptions diverge fairly rapidly. However, toward the end of projection period, annual net cashflow becomes lower (more negative) for higher assumed real-wage differentials. This occurs because benefits would then be more fully realized at a time when the projected cost substantially exceeds income excluding interest. These effects are depicted by the patterns in Chart 8A crossing during the later years of the projection period.

Chart 8A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 8A increase for the first year, and then, decrease rapidly until around 2030. They remain positive through 2015, 2016, and 2017 for assumed ultimate real-wage differentials of 0.6, 1.1, and 1.6 percentage points, respectively, and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2034, 2035, and 2035 for an assumed ultimate real-wage differential of 0.6, 1.1, and 1.6 percentage points, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real-wage differential of 1.6 percentage points, the present values continue increasing temporarily until 2056 when decreases temporarily begin again. The present values for the other two assumptions continue increasing throughout the remaining projection period. The crossover of the patterns that occurs during the later years of the projection period in Chart 8 is also evident in the present values patterns.

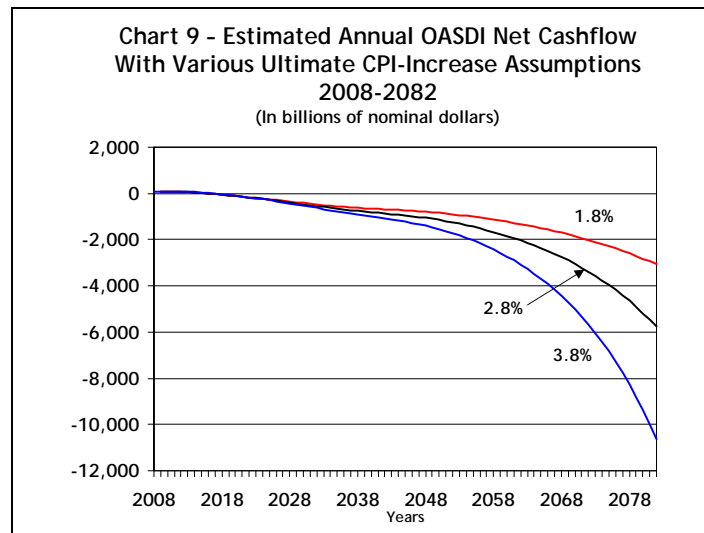
CONSUMER PRICE INDEX - Table 5 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate rate of change in the CPI. These assumptions are that the ultimate annual increase in the CPI will be 1.8, 2.8, and 3.8 percent, where 2.8 percent is the intermediate assumption in the 2008 Trustees Report. In each case, the ultimate real-wage differential is assumed to be 1.1 percentage point (as used in the intermediate assumptions), yielding ultimate percentage increases in average annual wages in covered employment of 2.9, 3.9, and 4.9 percent, respectively.

Table 5 demonstrates that, if the ultimate annual increase in the CPI is changed from 2.8 percent, the Trustees' intermediate assumption, to 1.8 percent, the shortfall for the period of estimated OASDI income relative to cost would increase to \$7,034 billion, from \$6,555 billion; if the ultimate annual increase in the CPI were changed to 3.8 percent, the shortfall would decrease to \$6,068 billion. This seemingly counter-intuitive result--that higher CPI-increases result in decreased shortfalls, and vice versa--is explained below.

**Table 5: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate CPI-Increase Assumptions
Valuation Period: 2008-2082**

Ultimate Annual Increase in Wages, CPI; Real Wage Differential	2.9% , 1.8% ; 1.1%	3.9% , 2.8% ; 1.1%	4.9% , 3.8% ; 1.1%
Present Value of Estimated Excess (In billions)	-\$7,034	-\$6,555	-\$6,068

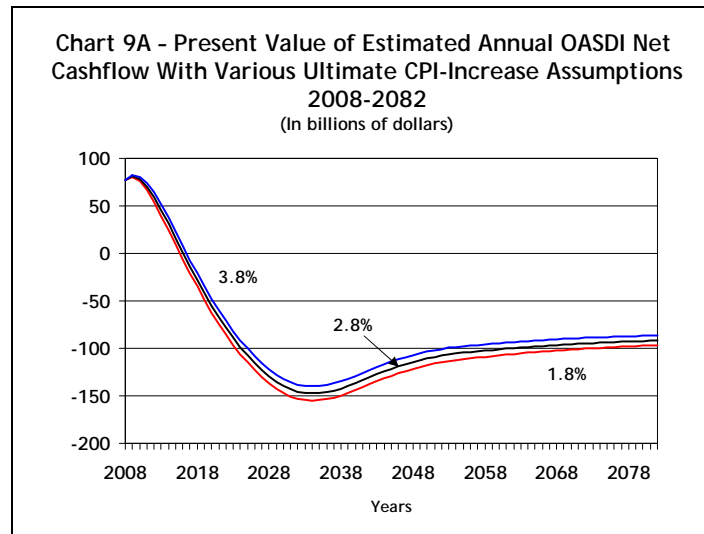
Charts 9 and 9A show estimates using the same assumptions about the ultimate annual increase in the CPI used for the estimates in Table 5. Chart 9 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow shown in Chart 9 are similar. After increasing in the early years, the net cashflow estimates decrease steadily through 2082. Annual net cashflow remains positive through 2016 for assumed ultimate annual increases in the CPI of 2.8 percent and 3.8 percent; and through 2015 for an assumed ultimate annual increase in the CPI of 1.8 percent. Larger increases in the CPI with the same real-wage differentials produce higher wages, which produce both higher payroll taxes and higher benefits based on these higher wages. Larger increases in the CPI also produce higher benefits directly, by increasing the cost-of-living adjustments to benefits. Thus, larger increases in the CPI result in both higher income and higher cost in nominal dollars.

Larger increases in the CPI cause earnings and income to increase sooner, and thus by more in each year, than benefits and cost. The effect on wages and payroll taxes occurs immediately, but the effect on benefits occurs with a lag. Initially (through 2021) the larger percentage increase in CPI results in a larger nominal-dollar increase in income, so net cashflow is increased for higher inflation in Chart 9. However, shortly after 2021, the lines in Chart 9 cross, indicating that net cashflow becomes lower (more negative) for higher assumed increases in the CPI. This occurs because program income begins to fall well below program cost, and thus the larger percentage increases in CPI eventually produce smaller nominal-dollar increases in income than in program cost.

Chart 9A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 9A are similar. After increasing for the first year, present values decrease rapidly until around 2030 before beginning to increase once again. They remain positive through 2016 (2015 for an assumed ultimate annual increase in the CPI of 1.8 percent) and are negative thereafter. Present values begin to increase (become less negative) in 2035 for all three assumptions. Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time.

The magnitudes of the present values in Chart 9A are lower, year by year, than the amounts in Chart 9 because of the discounting process used for computing present values. This would be the case even if the nominal interest rates on which the present values are based were assumed to be the same for all three patterns of annual net cashflow. For this analysis, however, larger increases in the CPI are combined with the same assumed real interest rates, thereby producing higher nominal interest rates. The effect of these higher interest rates is to reduce the magnitudes of the present values of annual net cashflow even more--the present values of positive annual net cashflow become less positive, and the present values of negative annual net cashflow become less negative. The compounding effect of the higher interest rates is strong enough, relative to the factors increasing benefits, to reduce the magnitudes of the present values of the negative annual net cashflow of the later years sufficiently to eliminate the crossover of the patterns that occurred in Chart 9.

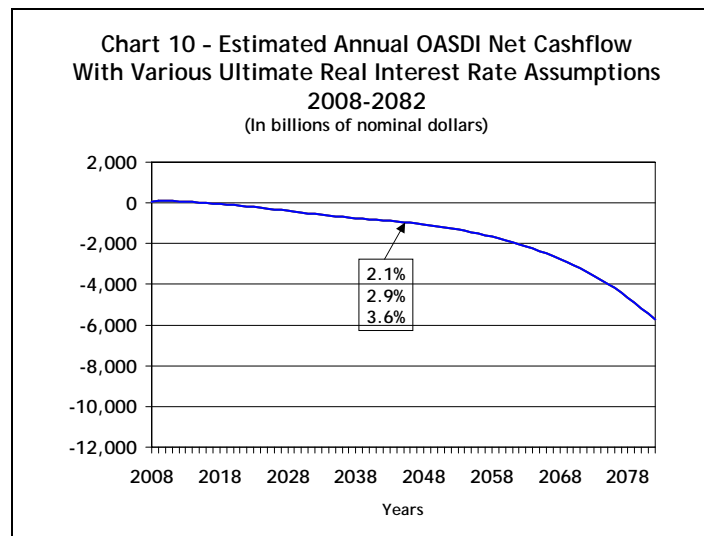
REAL INTEREST RATE - Table 6 shows the present values of the estimated excess of OASDI income over cost for the 75-year period, using various assumptions about the ultimate annual real interest rate for special-issue Treasury obligations sold to the OASI and DI Trust Funds. These assumptions are that the ultimate annual real interest rate will be 2.1, 2.9, and 3.6 percent, where 2.9 percent is the intermediate assumption in the 2008 Trustees Report. Changes in real interest rates change the present value of cashflow, even though the cashflow itself does not change.

Table 6 demonstrates that, if the ultimate real interest rate is changed from 2.9 percent, the Trustees' intermediate assumption, to 2.1 percent, the shortfall for the period of estimated OASDI income relative to cost, when measured in present-value terms, would increase to \$8,969 billion, from \$6,555 billion; if the ultimate annual real interest rate were changed to 3.6 percent, the present-value shortfall would decrease to \$5,050 billion.

**Table 6: Present Value of Estimated Excess of OASDI Income over Cost
With Various Ultimate Real-Interest Assumptions
Valuation Period: 2008-2082**

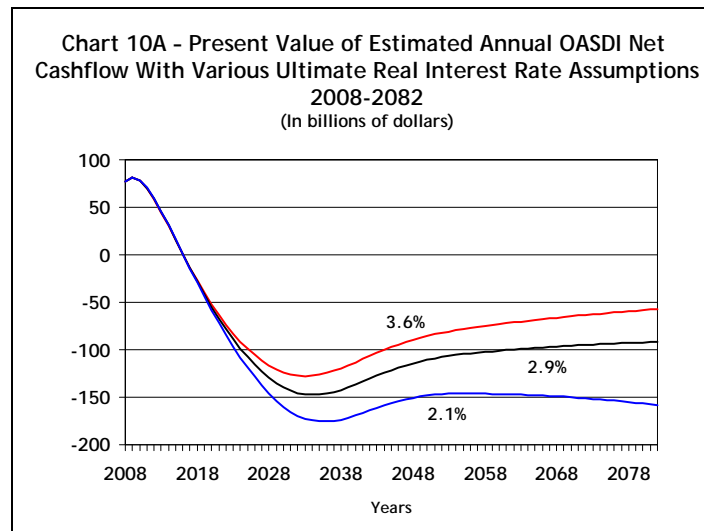
Ultimate Annual Real Interest Rate	2.1 Percent	2.9 Percent	3.6 Percent
Present Value of Estimated Excess (In billions)	-\$8,969	-\$6,555	-\$5,050

Charts 10 and 10A show estimates using the same assumptions about the ultimate annual real interest rate used for the estimates in Table 6. Chart 10 shows the estimated annual OASDI net cashflow.



The three patterns of estimated annual OASDI net cashflow (which does not include interest) shown in Chart 10 are identical, because interest rates do not affect cashflow. After increasing through 2010, the net cashflow estimates decrease steadily through 2082. They remain positive through 2016 and are negative thereafter.

Chart 10A shows the present value of the estimated annual OASDI net cashflow.



The three patterns of the present values shown in Chart 10A are similar. After increasing for the first year, the present values decrease rapidly until around 2030. They remain positive through 2016 and are negative thereafter. Present values based on all three assumptions begin to increase (become less negative) in the 2030's (2037, 2035, and 2034 for assumed ultimate real interest rates of 2.1, 2.9, and 3.6 percent, respectively). Thus, in terms of today's investment dollar, annual OASDI net cashflow, although still negative, begins to increase (become less negative) at that time. For the assumed real interest rate of 2.1 percent, the present values continue increasing temporarily, through 2055, then decrease thereafter. The present values for the other two assumptions continue increasing throughout the remaining projection period.

Although not observable, Chart 10A includes a crossover in the patterns of the present values of the net cashflow. The crossover occurs the year prior to the net cashflow change from positive to negative, which happens in 2016. The crossover occurs because higher interest rates result in present values that are lower in magnitude--positive amounts become less positive and negative amounts become less negative. Thus, before the time of the crossover--when the net cashflow is positive--the use of higher interest rates results in lower present values; after that time--when the net cashflow is negative--the use of higher interest rates results in higher present values--that is, present values that are less negative--thereby resulting in the crossover.

AUDITOR'S REPORTS



SOCIAL SECURITY

November 7, 2008

To: The Honorable Michael J. Astrue
Commissioner

This letter transmits the PricewaterhouseCoopers LLP (PwC) *Report of Independent Auditors* on the audit of the Social Security Administration's (SSA) Fiscal Year (FY) 2008 and 2007 financial statements. PwC's Report includes the firm's *Opinion on the Financial Statements*, *Report on Management's Assertion About the Effectiveness of Internal Control*, and *Report on Compliance and Other Matters*.

Objective of a Financial Statement Audit

The objective of a financial statement audit is to determine whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management as well as evaluating the overall financial statement presentation.

PwC's audit was made in accordance with auditing standards generally accepted in the United States; *Government Auditing Standards* issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04, *Audit Requirements for Federal Financial Statements*. The audit included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as considered necessary under the circumstances. Because of inherent limitations in any internal control, misstatements because of error or fraud may occur and not be detected. The risk of fraud is inherent to many of SSA's programs and operations, especially within the Supplemental Security Income program. In our opinion, people outside the organization perpetrate most of the fraud against SSA.

Audit of Financial Statements, Effectiveness of Internal Control, and Compliance with Laws and Regulations

The *Chief Financial Officers (CFO) Act of 1990* (P.L. 101-576), as amended, requires that SSA's Inspector General (IG) or an independent external auditor, as determined by the IG, audit SSA's financial statements in accordance with applicable standards. Under a contract monitored by the Office of the Inspector General (OIG), PwC, an independent certified public accounting firm, audited SSA's FY 2008 financial statements. PwC also audited the FY 2007 financial statements, presented in SSA's Performance and Accountability Report for FY 2008 for

comparative purposes. PwC issued an unqualified opinion on SSA's FY 2008 and 2007 financial statements. PwC also reported that SSA's assertion that its internal control over financial reporting was operating effectively as of September 30, 2008 and was fairly stated, in all material respects, based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. PwC identified no reportable instances of noncompliance with the laws, regulations or other matters tested.

OIG Evaluation of PwC Audit Performance

To fulfill our responsibilities under the CFO Act and related legislation for ensuring the quality of the audit work performed, we monitored PwC's audit of SSA's FY 2008 financial statements by

- Reviewing PwC's approach and planning of the audit;
- Evaluating the qualifications and independence of its auditors;
- Monitoring the progress of the audit at key points;
- Examining its workpapers related to planning the audit, assessing SSA's internal control, and substantive testing;
- Reviewing PwC's audit report to ensure compliance with *Government Auditing Standards* and OMB Bulletin No. 07-04;
- Coordinating the issuance of the audit report; and
- Performing other procedures we deemed necessary.

PwC is responsible for the attached auditor's report, dated November 7, 2008, and the opinions and conclusions expressed therein. The OIG is responsible for technical and administrative oversight regarding PwC's performance under the terms of the contract. Our review, as differentiated from an audit in accordance with applicable auditing standards, was not intended to enable us to express, and accordingly we do not express, an opinion on SSA's financial statements, management's assertions about the effectiveness of its internal control over financial reporting, or SSA's compliance with certain laws and regulations. However, our monitoring review, as qualified above, disclosed no instances where PwC did not comply with applicable auditing standards.



Patrick P. O'Carroll, Jr.
Inspector General



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Report of Independent Auditors

To the Honorable Michael J. Astrue
 Commissioner
 Social Security Administration

In our audit of the Social Security Administration (SSA), we found:

- The consolidated balance sheets of SSA as of September 30, 2008 and 2007, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2008, January 1, 2007, and January 1, 2006 are presented fairly, in all material respects, in conformity with accounting principles generally accepted in the United States of America;
- Management fairly stated that SSA's internal control over financial reporting was operating effectively as of September 30, 2008.
- No reportable instances of noncompliance with the laws, regulations or other matter tested.

The following sections outline each of these conclusions in more detail.

OPINION ON THE FINANCIAL STATEMENTS

We have audited the accompanying consolidated balance sheets of SSA as of September 30, 2008 and 2007, and the related consolidated statements of net cost and of changes in net position, and the combined statements of budgetary resources for the years then ended and the statement of social insurance as of January 1, 2008, January 1, 2007, and January 1, 2006. These financial statements are the responsibility of SSA's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and Office of Management and Budget (OMB) Bulletin No. 07-04. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above and appearing on pages 90 through 120 of this performance and accountability report, present fairly, in all material respects, the financial position of SSA at September 30, 2008 and 2007, and its net cost of operations, changes in net position, and budgetary resources for the years then ended and the financial condition of its social insurance programs as of January 1, 2008, January 1, 2007, and January 1, 2006, in conformity with accounting principles generally accepted in the United States of America.



Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The additional information presented on the statement of social insurance as of January 1, 2008, January 1, 2007, and January 1, 2006 is not a required part of the financial statements and is presented for purposes of additional analysis. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated in all material respects in relation to the financial statements taken as a whole.

As discussed in Note 17 to the financial statements, the statements of social insurance present the actuarial present value of SSA's estimated future income to be received from or on behalf of the participants and estimated future expenditures to be paid to or on behalf of participants during a projection period sufficient to illustrate long-term sustainability of the social insurance program. In preparing the statements of social insurance, management considers and selects assumptions and data that it believes provide a reasonable basis for the assertions in the statements. However, because of the large number of factors that affect the statements of social insurance and the fact that future events and circumstances cannot be known with certainty, there will be differences between the estimates in the statements of social insurance and the actual results, and those differences may be material.

REPORT ON MANAGEMENT'S ASSERTION ABOUT THE EFFECTIVENESS OF INTERNAL CONTROL

We have also examined management's assertion, included in the accompanying Federal Manager's Financial Integrity Act (FMFIA) Assurance Statement on page 39 of this Performance and Accountability Report (PAR) that SSA's internal control over financial reporting was operating effectively as of September 30, 2008 based on criteria established under OMB Circular A-123, *Management's Responsibility for Internal Control*. We did not test all internal controls relevant to the operating objectives broadly defined by the Federal Manager's Financial Integrity Act of 1982. SSA's management is responsible for maintaining effective internal control over financial reporting. Our responsibility is to express an opinion on management's assertion based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants (AICPA), the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and OMB Bulletin No. 07-04 and, accordingly, included obtaining an understanding of the internal control, testing and evaluating the design and operating effectiveness of the internal control, and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion.

Because of inherent limitations in any internal control, misstatements due to error or fraud may occur and not be detected. Also, projections of any evaluation of the internal control to future periods are subject to the risk that the internal control may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

In our opinion, management's assertion that SSA's internal control over financial reporting was operating effectively as of September 30, 2008, is fairly stated, in all material respects, based on criteria established under OMB Circular A-123.

We did note matters involving the internal control and its operation that we will communicate in a separate letter.



REPORT ON COMPLIANCE AND OTHER MATTERS

The management of SSA is responsible for compliance with laws and regulations. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the compliance with laws and regulations including laws governing the use of budgetary authority, government-wide policies and laws identified in Appendix E of OMB Bulletin No. 07-04 and other laws and regulations, noncompliance with which could have a direct and material effect on the financial statements. Under the Federal Financial Management Improvement Act (FFMIA) of 1996, we are required to report whether SSA's financial management systems substantially comply with the Federal financial management systems requirements, applicable Federal accounting standards, and the United States Government Standard General Ledger at the transaction level. To meet this requirement, we performed tests of compliance with FFMIA section 803(a) requirements.

We limited our tests of compliance to the provisions of laws and regulations cited in the preceding paragraph of this report. Providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests of compliance disclosed no instances of noncompliance with laws and regulations or other matters that are required to be reported under *Government Auditing Standards* or OMB Bulletin No. 07-04 and no instances of substantial non-compliance that are required to be reported under FFMIA.

OTHER INFORMATION

The Management's Discussion and Analysis (MD&A) included on pages 5 through 41, and Required Supplementary Information (RSI) included on pages 1 and 126 through 142 of this performance and accountability report are not a required part of the financial statements but are supplementary information required by the Federal Accounting Standards Advisory Board and OMB Circular No. A-136, *Financial Reporting Requirements*. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the MD&A and RSI. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of SSA taken as a whole. The Schedule of Budgetary Resources, included on page 126 of this PAR, is not a required part of the financial statements but is supplementary information required by OMB Circular No. A-136, *Financial Reporting Requirements*. This information and the consolidating and combining information included on pages 122 to 125 of this performance and accountability report are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, are fairly stated in all material respects in relation to the financial statements taken as a whole.

The other accompanying information included on pages 2 through 4, 43 through 89, 121, 143, 144, and 149 to the end of this PAR, is presented for purposes of additional analysis and is not a required part of the financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.



This report is intended solely for the information and use of management and the Inspector General of SSA, OMB, the Government Accountability Office and Congress and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads 'PRICEWATERHOUSE COOPERS LLP'. The signature is written in a cursive, flowing style, with the letters 'P', 'W', 'C', and 'L' being particularly large and stylized.

November 7, 2008



SOCIAL SECURITY
The Commissioner

OCT 30 2008

PricewaterhouseCoopers LLP
1301 K Street, NW
Washington, D.C. 20005

Ladies and Gentlemen:

We have reviewed the draft *Report of Independent Auditors* concerning your audit of our fiscal year 2008 financial statements. We are extremely pleased that, for the fourth consecutive year, the report contains no findings or recommendations. This is validation of the agency's continued commitment to protecting and carefully managing the resources, assets, and programs entrusted to us. We take pride in our ability to sustain strong and vigilant financial management.

If your staff has any questions, they may contact Jeffrey C. Hild at (410) 965-0613.

Sincerely,

Michael J. Astrue

SOCIAL SECURITY ADMINISTRATION BALTIMORE MD 21235-0001

INSPECTOR GENERAL STATEMENT ON SSA'S MAJOR MANAGEMENT AND PERFORMANCE CHALLENGES



SOCIAL SECURITY

November 5, 2008

The Honorable Michael J. Astrue
Commissioner

Dear Mr. Astrue:

The *Reports Consolidation Act of 2000* (RCA) (Pub. L. No. 106-531) requires that Inspectors General provide a summary and assessment of the most serious management and performance challenges facing Federal agencies and the agencies' progress in addressing them. This review is enclosed. RCA requires that the Agency place the final version of this Statement in its (FY) 2008 *Performance and Accountability Report*.

In November 2007, we identified six significant management and performance challenges facing the Social Security Administration for FY 2008.

- **Social Security Number Protection**
- **Internal Control Environment and Performance Measures**
- **Management of the Disability Process**
- **Systems Security and Critical Infrastructure Protection**
- **Improper Payments and Recovery of Overpayments**
- **Service Delivery and Electronic Government**

I congratulate you on the progress made during FY 2008 in addressing these challenges. My office will continue to focus on these issues in FY 2009. I look forward to working with you to continue improving the Agency's ability to address these challenges and meet its mission efficiently and effectively. I am providing you with the Office of the Inspector General's assessment of these six management challenges.

Sincerely,

A handwritten signature in black ink, appearing to read 'P. O'Carroll Jr.'.

Patrick P. O'Carroll, Jr.
Inspector General

*Fiscal Year 2008
Inspector General Statement
on the
Social Security Administration's
Major Management and
Performance Challenges*



SOCIAL SECURITY NUMBER PROTECTION

In Fiscal Year (FY) 2008, the Social Security Administration (SSA) processed approximately 6 million original and 12 million replacement Social Security number (SSN) cards and received approximately \$671 billion in employment taxes related to earnings under assigned SSNs. Protecting the SSN and properly posting the wages reported under SSNs are critical to ensuring eligible individuals receive the full benefits due them.

SSA has taken significant steps over the past decade to improve controls in its enumeration process, which have provided greater SSN integrity. Nevertheless, based on our recent audit work, we continue to believe that additional steps need to be taken regarding SSN assignment and protection. To further strengthen SSN integrity, SSA should

- support legislation to limit public and private entities' collection and use of SSNs and improve the protection of this information when obtained,
- work with the Internal Revenue Service (IRS) to develop alternatives to assigning SSNs to noncitizens who are authorized to work, but may only be in the country for a few months,
- continue its efforts to safeguard and protect personally identifiable information (PII), and
- improve the Enumeration at Entry process before its expansion.

Additionally, SSA is devoting resources to developing an on-line system for issuing replacement SSN cards. While we support the Agency's decision to offer more services on-line to enhance customer service, we are concerned about the potential for unscrupulous individuals to manipulate such a system, given the IRS' experience with fraud and abuse in its e-file program. Therefore, we believe SSA should develop appropriate authentication measures to ensure a high level of security and identity assurance before moving forward in offering on-line replacement SSN cards.

Maintaining the integrity of the SSN and Social Security programs also involves properly posting earnings reported under SSNs. Properly posting earnings is essential in determining whether individuals are eligible to receive retirement, survivor, and/or disability benefits as well as to calculate the benefit amounts. If earnings information is reported incorrectly or not reported at all, SSA cannot ensure all individuals eligible to benefits are receiving the correct payment amounts. The Earnings Suspense File (ESF) is the Agency's record of annual wage reports for wage earners whose names and/or SSNs fail to match SSA's records. As of October 2007, the ESF had accumulated approximately 275 million wage items for Tax Year While SSA cannot control all of the factors associated with erroneous wage reports, it can improve wage reporting by informing employers about potential SSN misuse cases, identifying and resolving employer reporting problems, encouraging greater use of the Agency's employee verification programs, and enhancing the employee verification feedback to provide employers with sufficient information on potential employee issues. SSA can also improve coordination with other Federal agencies with separate, yet related, mandates. For example, the Agency needs to work with the IRS to achieve more accurate wage reporting. SSA also needs to work with the Department of Homeland Security (DHS) to help resolve vulnerabilities we identified with the E-Verify program (formerly the Basic Pilot), which is a DHS initiative, in which SSA participates, that assists employers in verifying the employment eligibility of newly hired employees. In June 2008, the Commissioner of Social Security expressed his desire to work with DHS to help resolve some of the weaknesses with the E-Verify program. Specifically, he expressed the need for SSA and DHS to develop a more stringent registration process for E-Verify to reasonably guard against improper users registering and using E-Verify.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

Over the past decade, SSA has implemented numerous improvements to its enumeration process. We recognize that with these new procedures, the enumeration workload has increased in complexity for SSA personnel and resulted in some difficulties or delays for SSN applicants. Despite these challenges, we believe SSA's improved procedures help ensure the Agency is properly assigning these very important numbers. Some of SSA's more notable enumeration improvements include the following:

- Verifying the authenticity of most documents evidencing citizenship or lawful alien status before assigning an original SSN.
- Establishing six SSN Card Centers in Brooklyn and Queens, New York; Las Vegas, Nevada; Phoenix, Arizona (Downtown and North); and Orlando, Florida, which focus exclusively on assigning SSNs and issuing SSN cards.
- Requiring that field office personnel processing SSN applications use the Agency's SS-5 Assistant, a Microsoft Access-based application intended to increase control over the SSN application process. This program provides field office personnel processing SSN applications structured interview questions and requires certain data to complete the application process. Additionally, SSA plans to implement a web-based enumeration system known as the SSN Application Process in the next few years.
- Strengthening the standards and requirements for identity documents presented with SSN applications to ensure the correct individual obtains the correct SSN.

SSA has also taken steps to reduce the size and growth of the ESF. The Agency offers employers the ability to verify names and SSNs of their employees using the Agency's *Social Security Number Verification Service* (SSNVS), which is an on-line verification program. SSNVS allows employers to verify the information before reporting their wages to SSA. As of August 2008, SSNVS had processed over 53 million verifications for over 33,000 registered employers.

SSA also supports DHS in administering the E-Verify program. The program was recently enhanced to include a Photo Screening Tool feature, which allows an employer to check the photographs of a new hire's *Employment Authorization Document* or *Permanent Resident Card* (Green Card) against images stored in DHS immigration databases. As of June 2008, the E-Verify program had processed more than 4 million verification requests for about 69,000 employers.

The Agency continues to modify the information it shares with employers. Under the *Intelligence Reform and Terrorism Prevention Act of 2004* (Pub. L. No. 108-458), SSA is required to add both death and fraud indicators to the SSN verification systems for employers, State agencies issuing drivers' licenses and identity cards, and other verification routines, as determined appropriate by the Commissioner of Social Security. SSA added death indicators to those verification routines used by employers and State agencies in March 2006 and added fraud indicators in August 2007.

MANAGEMENT OF THE DISABILITY PROCESS

Modernizing Federal disability programs, including SSA's disability programs, has been included on the Government Accountability Office's (GAO) high-risk list since FY 2003 due, in part, to outmoded concepts of disability, as well as ongoing challenges to make timely, accurate, and consistent decisions. Moreover, at the forefront of congressional and Agency concern is the timeliness of SSA's disability decisions at the hearings adjudicative level. The average processing time at the hearings level continues to increase—from 293 days in FY 2001 to 514 in FY 2008. Additionally, the pending workload continues to increase. At the end of FY 2008, the pending workload was 760,813 cases—up from 746,744 in FY 2007 and almost double the 392,387 cases in FY 2001.

As of October 2008, we were conducting a review to determine overall average processing times at each stage of the process—disability determination services (DDS), ALJ hearing, Appeals Council, and the Federal Courts. We expect to complete this work in FY 2009 and provide some insights into the process by taking a big-picture look at the whole process from the claimant's perspective—from the time they apply until they receive a check or exhaust all appeals. We will follow this with another review in FY 2009 where we will obtain information directly from disability claimants on how their lives were impacted by the length of the disability process.

In our February 2008 review of administrative law judges' (ALJ) caseload performance, we found that the Office of Disability Adjudication and Review's (ODAR) ability to process projected hearing requests and address the growing backlog of cases will continue to be negatively impacted by the caseload performance of some ALJs if their status quo performance levels continue. Accordingly, we recommended that SSA establish a performance accountability process that allows ALJ performance to be addressed when it falls below an acceptable level.

In August 2008, we issued a follow-up report to Congress highlighting that ALJs have varying levels of productivity (both high and low productivity) for internalized reasons, such as motivation and work ethic. We also reported on factors impacting ALJ and hearing office productivity and processing times, including hearing office staff levels, hearing dockets, favorable rates, individual ALJ preferences, Agency processes and DDS case development. In another review for Congress, we assessed the organizational culture at the DDS for approving and denying disability claims. This congressional request was precipitated by a media story that SSA maintains a culture to deny disability claims. In our August 2008 report, we stated that the weight of the evidence does not support the allegation that there is a culture to deny within the DDSs.

In other audits, we highlighted the need for greater oversight of ALJ training programs as well as improved management information. In our April 2008 review of the Association of ALJ's training conference costs, we found the Agency was supporting ALJ training as a way to improve ALJ productivity but could implement better controls over expenditures and attendance by running such conferences in-house. Our June 2008 report on the timeliness of medical evidence assessed the availability of management information at the hearing office and national level to assist managers in monitoring timeliness trends. After we identified an area where more accurate coding of hearing activity could improve the management information, the Agency issued new guidance to hearing offices instructing them on the proper use of these codes.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA's FY 2008 Semiannual Report detailed its plan to eliminate the backlog of hearing requests and prevent its recurrence. The Commissioner's plan focused on (1) compassionate allowances, (2) improving hearing office procedures, (3) increasing adjudicatory capacity and (4) increasing efficiency with automation and improved business processes. However, it may take time for these new initiatives and additional resources to lead to a reduction in the backlog. As we noted earlier, the backlog of hearing requests in FY 2008 was actually greater than it was at the end of FY 2007.

Compassionate Allowances. This initiative builds on the success of the Quick Disability Determination process that identifies and allows benefits to applicants who are obviously disabled. SSA has been developing and expanding the use of automated screening tools to identify the types of cases that fall under the compassionate allowances initiative. SSA is also refining its rules, regulations, and listing codes to reflect current advances in

medical science. When SSA announced this initiative in FY 2007, the expectation was that 3 to 10 percent of new claims would be decided as compassionate allowances. However, this initiative is still in its infancy, and we expect to initiate a review in this area to determine whether it is helping address the backlog of hearing requests and prevent its recurrence.

Improve Hearing Office Procedures. As part of the two initiatives under this effort, in FY 2007 SSA focused on eliminating the backlog of aged cases that would be 1,000 days or older by the end of the FY and successfully reduced the backlog of 1,000 day-old cases to just over 100 cases. In FY 2008, SSA redefined aged cases to those that would be 900 days old or older by the end of FY 2008 and reduced the number of such cases from 135,160 to 281 cases.

Increase Adjudicatory Capacity. One of six initiatives is to improve ALJ productivity. Under this initiative, the Chief ALJ requested that each ALJ issue 500 to 700 dispositions per year. This initiative also includes appropriate training to assist ALJs with these workloads. Another initiative is hiring new ALJs. In FY 2008, SSA hired 190 new ALJs.

Increase Efficiency with Automation and Improved Business Process. One of 27 initiatives is transitioning to the electronic folder. Under this initiative, all DDSs and ODAR offices are transitioning from processing disability claims using paper folders to using electronic folders. Other initiatives in this area include electronic case file assembly, electronic scheduling, centralized printing and mailing, enhanced hearing office management information and expanded use of video hearings.

We continue to work with SSA to address the integrity of the disability program through the Cooperative Disability Investigations (CDI) program. The CDI program's mission is to obtain evidence that can resolve questions of fraud in SSA's disability claims. Since the program's inception in FY 1998, the 19 CDI units, operating in 17 States, have been responsible for over \$1 billion in projected savings to SSA's disability programs and approximately \$665 million in projected savings to non-SSA programs. This effort will be further assisted in the new FY with the opening of a 20th CDI unit in Little Rock, Arkansas, October 2008.

IMPROPER PAYMENTS AND RECOVERY OF OVERPAYMENTS

Workers, employers, and taxpayers who fund SSA and Supplemental Security Income (SSI) programs deserve to have their tax dollars effectively managed. As a result, SSA must be a responsible steward of the funds entrusted to its care and minimize the risk of making improper payments. SSA strives to balance its service commitments to the public with its stewardship responsibilities. However, given the size and complexity of the programs the Agency administers, some payment errors will occur.

Since SSA is responsible for issuing timely benefit payments for complex entitlement programs to millions of people, even the slightest error in the overall process can result in millions of dollars in over- or underpayments. In FY 2007, SSA issued over \$612 billion in Old-Age, Survivors and Disability Insurance (OASDI) and SSI benefit payments to about 54 million people. A January 2008 Office of Management and Budget (OMB) report, *Improving the Accuracy and Integrity of Federal Payments*, noted that nine Federal programs—including SSA's OASDI and SSI programs—accounted for more than 90 percent of the improper payments in FY 2007.

The reduction of improper payments is one of SSA's key strategic objectives. In addition, elimination of improper payments is one of the program initiatives in the President's Management Agenda (PMA), a Government-wide initiative for improving financial performance. In furtherance of this initiative, Congress passed the *Improper Payments Information Act of 2002* (Pub. L. No. 107-300), and OMB issued implementing guidance clarifying the definition of an improper payment and OMB's authority to require that agencies track programs with low error rates (that is, less than 2.5 percent) but significant improper payment amounts.

We issued a report in 2006 on overpayments in SSA's disability programs in which we estimated that SSA had not detected about \$3.2 billion in overpayments and had paid about \$2.1 billion in benefits annually to potentially ineligible beneficiaries. Although SSA tries to achieve a balance between stewardship and service, it has been a challenge due to the resources required to conduct an adequate number of medical and work-related continuing disability reviews (CDR). Although the Agency had special funding for CDRs in FYs 1996 through 2002 and SSA's data show that CDRs save about \$10 for every \$1 spent to conduct them, the Agency has cut back on this workload.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has been working to improve its ability to prevent over- and underpayments by agreeing to and then implementing OIG audit recommendations. For example, in March 2008, we issued a report identifying \$7.6 million in overpayments to auxiliary beneficiaries because SSA's records did not have their SSNs on its payment records; and as a result, the Agency's data matching efforts did not detect that these individuals were incorrectly paid. When we issued the report, SSA had already recovered \$3.1 million (41 percent) of the improper payments.

We also issued a report in May 2008 showing that an estimated 2,088 SSI recipients were overpaid about \$24.8 million because they did not report their marriage to SSA. As a result, the Agency is taking corrective action to stop the improper payments and collect the overpayments. Additionally, in an April 2008 report, we determined that despite SSA's efforts to identify residency violations, about \$226.2 million in overpayments went undetected because about 40,560 recipients did not inform SSA of their absence from the United States. SSA agreed with our recommendation to obtain and analyze electronic bank statement information to prevent these types of overpayments in the future. In two other 2008 reports we identified approximately \$467 million in underpayments were owed to about 395,000 beneficiaries.

We will continue to work with SSA to identify improper payments in its programs and recommend improvements to prevent them from occurring in the future.

INTERNAL CONTROL ENVIRONMENT AND PERFORMANCE MEASURES

Sound management of public programs includes both effective internal controls and performance measurement. Internal control comprises the plans, methods, and procedures used to meet missions, goals, and objectives. The *Federal Managers' Financial Integrity Act of 1982* (FMFIA) (Pub. L. No. 97-255) requires that the Agency establish management controls and financial systems that provide reasonable assurance the integrity of Federal programs and operations is protected. It also requires that the Commissioner, based on an evaluation, provide an annual Statement of Assurance on whether SSA has met this requirement. Similarly, OMB Circular A-123, *Management's Responsibility for Management Control*, which is issued under the authority of FMFIA, requires that the Agency and its managers take systematic and proactive measures to develop and implement appropriate, cost-effective internal control for results-oriented management. Accordingly, SSA management is responsible for determining, through performance measurement and systematic analysis, whether the programs it manages achieve intended objectives.

In FY 2008, the Commissioner reported that SSA could provide reasonable assurance that its internal controls over the effectiveness and efficiency of its operations and compliance with applicable laws and regulations was operating effectively, and no material weaknesses were found in the design or operations of the internal controls as of September 30, 2008. While we do not question the Commissioner's conclusion, we realize that SSA's overall control environment can be free of material weaknesses but still have room for improvement.

Establishing appropriate controls over the development of disability claims under the Disability Insurance (DI) and SSI programs is one of the main processes for which SSA is responsible. Disability determinations under DI and SSI are performed by DDSs in each State or other responsible jurisdictions in accordance with Federal regulations. Each DDS is responsible for determining claimants' disabilities and ensuring adequate evidence is available to support its determinations. SSA reimburses the DDS for 100 percent of allowable expenditures up to its approved funding authorization. In FY 2008, SSA allocated over \$1.8 billion to fund DDS operations.

From FYs 2000 through 2008, we conducted 72 DDS administrative cost audits. In 40 of the 72 audits, we identified internal control weaknesses and over \$114 million that SSA reimbursed to the States that was not properly supported or could have been put to better use. Nine of the 72 audits conducted were completed in FY 2008. Six of these audits noted similar internal control weaknesses identified in previous DDS audits and over \$4 million of questioned costs and/or funds that could have been put to better use. We believe the large dollar amounts expended by DDSs and the related internal control issues we identified warrant this issue remaining a major management challenge.

Another area that requires sound management and effective internal control is the selection and oversight of contractors assisting the Agency in meeting its mission. In FY 2008, SSA spent over \$881 million on contracts. We reviewed two of SSA's contracts in FY 2008. We generally found that the costs claimed for services provided by the contractors involved were reasonable and allowable but found room for improvement. For example, temporary badges assigned to some contract employees improperly had a "not-to-exceed date" that extended beyond the end of the contract period. Accordingly, the contract employees could have gained access to SSA facilities after they were no longer working on the contract. Also, the contract employees working status with SSA was not accurately reflected in suitability records. We believe ensuring proper oversight and controls over its contracts is inherently a major management challenge for SSA due to the total dollar amounts awarded and risks involved with contractors adequately delivering services and meeting contract objectives.

The use of performance measures provides SSA with information about program results and service quality. The *Government Performance and Results Act of 1993* (Pub. L. No. 103-62) and the PMA require the identification of outcome measures that accurately monitor programs' performance. Also, SSA managers need sound information to monitor and evaluate performance. In FY 2008, we issued four audits that addressed eight of SSA's performance

measures. All four audits released in FY 2008 were based on work initiated in FY 2007 and completed in FY 2008. The eight performance measures addressed in these four reports are listed below.

- Maintain the number of initial disability claims pending in the DDS (at/below FY 2007/2008 goal)
- DDS net accuracy rate (allowances and denials combined)
- Number of SSI disabled beneficiaries earning at least \$100 per month
- Remove 3 percent of the earnings items that remain in the ESF for a new tax year and post the earnings to the correct earnings records
- Number of periodic CDRs processed to determine continuing entitlement based on disability
- Number of SSI non-disability redeterminations processed
- SSA hearings case production per workyear
- Issue annual SSA-initiated Social Security Statements to eligible individuals age 25 and older

We concluded that the data used for two of the eight measures were reliable, and the data used for the remaining six were unreliable. Generally, when data were determined to be unreliable, it was due to weaknesses in internal or access controls over the systems used to collect and process it. Due to the control weaknesses, the data were not sufficiently secure to be certain of their integrity. The challenge SSA faces in this area is ensuring that it has reliable management information when making strategic and operational plans.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has taken steps to develop internal controls over its operations and contractor performance and in developing sound performance data. SSA has generally agreed with our recommendations that address internal control weaknesses associated with DDSs and has taken the recommended steps to ensure reimbursements provided to DDSs are allowable and properly supported. Additionally, SSA is working to limit the number of employees who have access and the ability to change data in its performance data collection systems to help ensure the integrity of its management information.

While the Agency has taken steps to address our recommendations, we will continue to audit DDSs and SSA's contracts in the upcoming FY. Additionally, we plan to audit a number of grants SSA has awarded to ensure it has proper controls over the funds provided to grantees and the funding leads to the desired impact of the grants. Given the large dollar amounts involved and the importance of the work provided by DDSs, contractors and grantees, we believe it is important to monitor SSA's oversight of these entities, ensuring that funds are spent appropriately and critical missions are met.

SYSTEMS SECURITY AND CRITICAL INFRASTRUCTURE PROTECTION

The vulnerability of critical infrastructures and the unique risks associated with networked computing have been recognized for some time. Federal agencies rely heavily on information technology to run their daily operations and deliver products and services. With an increasing reliance on information technology, a growing complexity of Federal information technology infrastructure, and a constantly changing information security threat and risk environment, information security has become a mission-essential function.

SSA's information security challenge is to understand and mitigate system vulnerabilities. Weaknesses in controls over physical and logical access to its electronic information, technical security configuration standards, suitability and continuity of systems operations have been identified. The information security challenge extends to the Agency's ability to properly maintain its operations and recover from a disaster. While many of these weaknesses have been resolved, SSA needs to monitor these issues diligently to ensure they do not recur. This means ensuring the security of its critical information infrastructure and sensitive data. Federal agencies maintain significant amounts of personal information concerning individuals, often referred to as PII. The loss of PII can result in substantial harm, embarrassment, and inconvenience to individuals and may lead to identity theft or other fraudulent use of the information.

Incidents of Federal agencies losing PII demonstrate the importance of data security. The public will be reluctant to use electronic access to SSA services if it does not believe the Agency's systems and data are secure. Without due diligence, sensitive information can become available to those who are not entitled to it and may use it for personal gain. For example, in June 2008, we reported that since January 2004, the publication of the Death Master File (DMF) has resulted in the breach of PII for over 20,000 living individuals erroneously listed as deceased on the DMF. To address increasing workloads and the changing work environment, SSA constantly assesses and implements new technologies, such as the Internet Protocol version 6 and Voice over Internet Protocol. New technology often brings advantages but also presents new security challenges. SSA needs to understand and address potential risks before such technology is implemented.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA addresses critical information infrastructure and systems security in a variety of ways. For example, it created a Critical Infrastructure Protection work group to ensure continued compliance with various directives, such as the Homeland Security Presidential Directives (HSPD) and *Federal Information Security Management Act of 2002* (FISMA) (Pub. L. No. 107-347). HSPD 12 mandates the development of a common identification standard for all Federal employees and contractors. Federal Information Processing Standard 201, *Personal Identity Verification of Federal Employees and Contractors*, was developed to satisfy the requirements of HSPD 12. SSA worked with other agencies and OMB to address HSPD 12 and comply with Personal Identity Verification. To date, SSA has issued more than 63,000 Personal Identity Verification compliant credentials to employees and contractor personnel and is on target to issue credentials to all 85,000 employees by September 30, 2008.

To meet FISMA requirements, SSA and we annually evaluate SSA's security program. FISMA requires that agencies institute a sound information security program and framework. Since the inception of FISMA, we have worked with the Agency to ensure prompt resolution of security issues. The House Oversight and Government Reform Committee rated SSA "A+" for FY 2007 on its computer security based on its compliance with the OMB FISMA reporting guidance. This guidance merely requires that Federal agencies report on the status of certain elements of their information security programs. Reporting under these criteria does not ensure a lack of system security deficiencies.

Even though SSA is substantially compliant with the OMB FISMA requirements, there are several system security areas that the Agency could improve upon. SSA needs to ensure (1) controls to protect PII are fully developed and implemented in accordance with OMB guidance; (2) adequate incident response and reporting policies and procedures are implemented Agencywide; (3) system access controls are fully implemented to meet least privilege criteria for all users of SSA systems; (4) systems are sufficiently tested to fully meet FISMA requirements; and (5) all contractor personnel are appropriately suitability tested and receive annual security awareness training.

Additionally, SSA has taken steps in the area of PII. The Agency has established a PII Executive Steering Committee, which provides oversight and recommendations on SSA policy, and the PII Breach Response Group whose role is to engage in Agency planning if a breach occurs. SSA has developed strict policies and procedures for employees to protect PII. In May 2008, SSA began notifying the U.S. Computer Emergency Readiness Team, a partnership between DHS and the public and private sectors established to protect the Nation's Internet infrastructure, that individuals were erroneously included in the DMF. SSA is also completing an assessment of the risks involved with the affected individuals and developing an appropriate notification policy for these individuals. Because of the critical nature of PII, we plan to audit SSA's compliance with its own PII policies in the coming FY.

SSA's most important asset is the sensitive information in its databases. To ensure effective use of these databases in the future, SSA is converting them from legacy systems to more commercially used applications. This will take several years to complete. Additionally, in recent years, the need to recover from a disaster or significant event has become increasingly evident. To better enable itself to recover from such an event, SSA is building a second Data Center to handle some of the current workload of SSA's primary data center and temporarily replace the primary data center in the event of a significant incident. SSA plans to begin occupancy of this facility in January 2009, but there have been delays to the original occupancy date. Because of the importance of the new data center, we plan to continue to monitor SSA's progress.

SERVICE DELIVERY AND ELECTRONIC GOVERNMENT

Two of SSA's strategic goals in effect in FY 2008 were to deliver high-quality, "citizen-centered" service and to strategically manage and align staff to support the mission of the Agency. The service goal encompassed traditional and electronic services to applicants for benefits, beneficiaries, and the general public. It included services to and from States, other agencies, third parties, employers, and other organizations, including financial institutions and medical providers. The staff goal focused on the Agency's strategies for maintaining a high-performing workforce that is prepared to deliver quality service to the American public. This management challenge includes such areas as the Representative Payee Process, Managing Human Capital, and Electronic Government.

When SSA determines a beneficiary cannot manage his or her benefits, it selects a representative payee who must use the payments for the beneficiary's interests. There are approximately 5.4 million representative payees who managed about \$52.7 billion in annual benefit payments for approximately 7.2 million beneficiaries. While representative payees provide a valuable service for beneficiaries, SSA must provide appropriate safeguards to ensure its responsibilities are met to the beneficiaries it serves.

Representative payees continue to be a significant challenge for SSA. Most notably, SSA needs to improve its identification of incapable beneficiaries in need of representative payees; selection of suitable representative payees; and subsequent monitoring to ensure beneficiaries' funds are properly managed. Our audits and investigations of representative payees have found significant problems with the management of beneficiaries' funds that, in some cases, had been occurring for several years in spite of SSA's previous identification of these problems. We are also concerned that SSA may not be aware of aged beneficiaries who may be in need of representative payees. We have found that as many as 50 percent of individuals over the age of 85 may suffer from some form of dementia or Alzheimer's disease; however, only 4.4 percent of SSA beneficiaries over age 85 have representative payees. We also identified several instances of beneficiaries who may need representative payees since their payments were sent "in-care of" nursing homes. We plan to conduct reviews focused on this population of beneficiaries who may need a representative payee but do not have one. In July 2007, the National Academy of Sciences (NAS) issued a report, *Improving the Social Security Representative Payee Program: Serving Beneficiaries and Minimizing Misuse*. The report contained 28 recommendations to improve SSA's representative payee program. In FY 2008, we identified several problematic conditions during our reviews of SSA's representative payee process. We plan a number of reviews that will provide information to the Agency as it attempts to implement the NAS recommendations.

GAO has included strategic human capital management on its list of high-risk Federal programs and operations since FY 2001. Further, Strategic Management of Human Capital is one of five Government-wide initiatives contained in the PMA. By the end of 2012, SSA projects its DI rolls will have increased by 35 percent. Further, the Agency projects 53 percent of its employees will be eligible to retire by FY 2017. It is expected this will result in a loss of institutional knowledge that will affect SSA's ability to deliver quality service to the public.

SSA is being challenged to address its human capital shortfalls. The growing workload and retirement wave are expected to have a significant impact on SSA's ability to deliver quality service to the public. For SSA field offices to continue providing the quality service its customers expect, we believe training is needed to enable staff to remain current on Agency policies, procedures, operations, and changes in technology. Thus, the Agency's succession planning related to automated workloads is a concern. In a review of SSA field offices' training of staff, we found SSA had a structured training program, and the training was accessible to field office employees. We also found most Claims and Service Representatives responding to our questionnaire were satisfied that the general and disability-related training received for their position had helped them do their job effectively and efficiently, and the training was provided timely. However, most staff perceived the existence of barriers that prevented them from receiving training needed to perform their duties; and a lack of communication with management and expressed a need for SSA to improve the training experience. Furthermore, it is imperative that staff in mission-critical occupations possess certain competencies. We plan to examine the issue of competency gaps for mission-critical occupations during the upcoming FY.

In a review of SSA's Electronic Services (eServices), we found that over the last 9 years, SSA has automated more of its workload and is attempting to conduct more of its business with the public using eServices. However, SSA must overcome several challenges to meet its Internet services goals including increasing its use, implementing planned enhancements, and addressing critical issues. Additionally, as the Agency implements its planned expansion of eServices, it also needs to develop appropriate authentication measures tailored to each electronic application to identify individuals and maintain the security of SSA's most sensitive information. We plan to continue to monitor SSA's steps to address these challenges.

Although SSA's Internet retirement application is one of the highest rated Internet applications in the Government, SSA reported that only 15.2 percent of retirement benefit claims were filed through the Internet in FY 2008. According to Commissioner Astrue, the Agency's online filing percentage will need to increase to 50 percent within the next 5 years "in order to keep field offices from being totally overwhelmed." The Agency believes maximizing the use of modern technology and changing the service delivery model will enable SSA to continue to provide critical services to all future beneficiaries. The Agency was able to issue a number of improvements to the Internet retirement application in September 2008. However, some of the planned improvements were postponed. The application status enhancement is planned to be released at the same time the Agency releases iClaim -- its new online application for Social Security Benefits which will replace the Internet Social Security Benefits Application.

SSA HAS TAKEN STEPS TO ADDRESS THIS CHALLENGE

SSA has taken some actions to address the challenges of its representative payee process. SSA provided to Congress its response to the NAS report in April 2008. The Agency agreed with most of the recommendations made by NAS. For example, SSA agreed to redesign the Representative Payee System, which is SSA's database of representative payees. SSA also committed to developing an interactive video training initiative to provide better training to its employees. Additionally, SSA agreed with our report recommendations to address issues related to the suitability of representative payees who are geographically separated from the beneficiaries they serve when they conduct representative payee reviews. SSA also agreed to correct Representative Payee System records where information does not match the Master Beneficiary and Supplemental Security Records. Further, SSA agreed to follow up with organizational payees to recover debts owed to SSA. Finally, SSA has self-initiated random reviews of individual representative payees servicing fewer than 15 beneficiaries and organizational representative payees serving fewer than 50 beneficiaries.

As of September 30, 2008, SSA scored "green" in both "Current Status" and "Progress in Implementing the PMA" for Human Capital on the Executive Branch Management Scorecard. The Scorecard tracks how well the departments and major agencies are executing the five Government-wide management initiatives.

SSA has implemented various strategies to address its human capital challenges, such as filling positions before key vacancies occur, using understudies in targeted positions, conducting leadership symposiums to strengthen knowledge and skills of mid-level managers and developing plans to minimize competency gaps in mission critical occupations. The Agency reported that it also redirected and established new priorities to address its service delivery challenges. One of the priorities was to increase efficiency through technology. SSA reported using speech technology for the National 800-Number Network to reduce call handle-time, increase overall accuracy, and improve efficiency by reducing the time callers spend navigating through menu prompts. The Agency also released a newly redesigned *Social Security Online* homepage to make the website more user-friendly and to help reduce the number of unnecessary trips to the local Social Security office.

GAO reported SSA field offices largely met work demands between FYs 2005 and 2007, despite operating with fewer staff and an increased demand for services. To manage the workload, field offices shared work among offices and redirected staff to meet critical needs. The Agency also encouraged customers to make greater use of Internet and other eServices.

Studies have shown that the public wants to conduct more business via the Internet, and SSA has taken steps to address the challenges of offering eServices to the public. Since the Agency publicized that the first baby boomer to file for retirement used the Internet to file her claim, it has seen a 43-percent increase in the number of retirement applications filed on-line. SSA's Internet retirement application is one of the highest rated Internet applications in

the Government, and the Agency estimates that Internet retirement claims have saved adjudicators an average of 13 minutes, up from 9 minutes in 2006. Furthermore, SSA has been successful in familiarizing field office staff with the Internet application, with almost two-thirds of the staff saying it was very easy to assist the public when asked questions regarding the application. SSA plans to implement a redesigned Internet retirement application that features easier navigation and simple on-screen help and will only ask questions pertinent to an individual's personal situation based on information already housed in SSA's electronic records.

OTHER REPORTING REQUIREMENTS

SUMMARY OF FINANCIAL STATEMENT AUDIT AND MANAGEMENT ASSURANCES

Summary of Financial Statement Audit					
Audit Opinion	Unqualified				
Restatement	No				
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Ending Balance
Total Material Weaknesses	0	0	0	0	0

Summary of Management Assurances						
Effectiveness of Internal Control over Financial Reporting (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Effectiveness of Internal Control over Operations (FMFIA Section 2)						
Statement of Assurance	Unqualified					
Material Weaknesses	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Material Weaknesses	0	0	0	0	0	0
Conformance with financial management system requirements (FMFIA Section 4)						
Statement of Assurance	Systems conform to financial management system requirements					
Non-Conformances	Beginning Balance	New	Resolved	Consolidated	Reassessed	Ending Balance
Total Non-Conformances	0	0	0	0	0	0

Compliance with Federal Financial Management Improvement Act (FFMIA)		
	Agency	Auditor
Overall Substantial Compliance	Yes	Yes
1. System Requirements	Yes	
2. Accounting Standards	Yes	
3. USSGL at Transaction Level	Yes	

ANTI-FRAUD ACTIVITIES

We are committed to improving financial management by preventing fraudulent and improper payments (see the *Agency Priorities As We Move Forward* section and the *Improper Payments Information Act of 2002 Detailed Report* for more information). Section 206 (g) of the *Social Security Independence and Program Improvements Act*, Public Law 103-296, requires the agency to report annually on the extent to which cases of entitlement to monthly Old-Age and Survivors Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) benefits have been reviewed; and the extent to which the cases reviewed were those that involved a high likelihood or probability of fraud.

ENTITLEMENT REVIEWS

Entitlement reviews help ensure that continued monthly payments are correct, even though fraud is not an issue in the vast majority of cases. Cases are selected and reviews undertaken, both prior to and after effectuation of payment, to ensure that development procedures and benefit awards are correct. Listed below are major entitlement reviews conducted by the agency:

DISABILITY QUALITY ASSURANCE REVIEWS

We perform quality assurance reviews of random samples of Disability Determination Services (DDS) determinations to measure the level of accuracy against standards mandated by the Regulations. These reviews are conducted prior to the effectuation of the DDS determinations and cover initial claims, reconsideration claims, and determinations of continuing eligibility. The following table shows that, for favorable determinations, the state DDSs have consistently made the correct decision to allow or continue benefits.

Quality Assurance Review					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
% of state DDS decisions to allow or continue not returned to the DDSs for correction	96.4%	96.3%	96.3%	96.9%	97.7%
No. of cases reviewed	40,323	37,101	35,433	33,329	32,292
No. of cases returned to the DDSs due to error or inadequate documentation	1,454	1,389	1,326	1,028	729

TITLE II PREEFFECTUATION REVIEWS

We also perform preeffectuation reviews of favorable Title II and concurrent Title II/Title XVI initial and reconsideration determinations using a profiling system to select cases for review. This helps ensure the cost-effectiveness of preeffectuation reviews, and satisfies the legislative requirement that the cases reviewed are those that are most likely to be incorrect. We also review a sufficient number of continuing disability review continuance determinations to ensure a high level of accuracy in those cases. The following table shows that over 97 percent of the decisions made on Title II preeffectuation reviews are accurate.

Title II Preeffectuation Reviews					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
% of state DDS decisions to allow or continue not returned to the DDSs for correction	96.3%	95.9%	96.0%	96.3%	97.3%
No. of cases reviewed	334,774	328,189	305,233	307,884	338,440
No. of cases returned to the DDSs due to error or inadequate documentation	12,498	13,338	12,118	11,225	9,203

TITLE XVI PREEFFECTUATION REVIEWS

Following legislation enacted in February 2006, we began preeffectuation reviews of favorable Title XVI initial and reconsideration adult determinations. FY 2007 was the first full year of review. As in Title II cases, we also use a profiling system to select cases for review. The following table shows that over 98 percent of the decisions made on Title XVI preeffectuation reviews are accurate.

Title XVI Preeffectuation Reviews					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
% of state DDS decisions to allow not returned to the DDSs for correction	N/A	N/A	N/A	97.4%	98.1%
No. of cases reviewed	N/A	N/A	N/A	80,784	105,203
No. of cases returned to the DDSs due to error or inadequate documentation	N/A	N/A	N/A	2,117	2,018

CONTINUING DISABILITY REVIEWS

A key activity in ensuring the integrity of the disability program is periodic continuing disability reviews (CDR) through which we determine whether beneficiaries continue to be entitled to benefits because of their medical conditions. Once an individual becomes entitled to Social Security or SSI disability benefits, any changes in their circumstances may affect the amount or continuation of benefits and thus must be reflected in our records. We also conduct a quality review of those decisions. The accuracy of these CDRs is shown on the following table.

CDR Accuracy					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Overall Accuracy	94.7%	94.9%	93.5%	95.6%	96.6%
Continuance Accuracy	95.0%	95.3%	93.8%	96.4%	97.6%
Cessation Accuracy	93.0%	93.3%	92.4%	93.5%	93.2%

OASI AND SSI QUALITY ASSURANCE REVIEWS

One of our four *Government Performance and Results Act* strategic goals is ‘to protect the integrity of Social Security programs through superior stewardship.’ One of the ways in which we ensure this goal is by performing OASI and SSI quality assurance reviews. Detailed discussion on the results of these reviews can be found in the *Performance Section* of this report on pages 61-64.

SSI REDETERMINATIONS

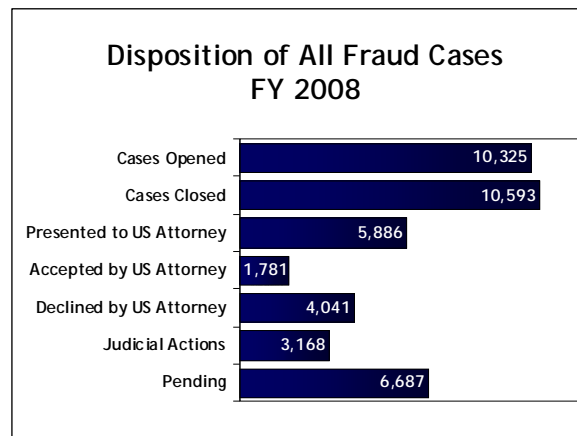
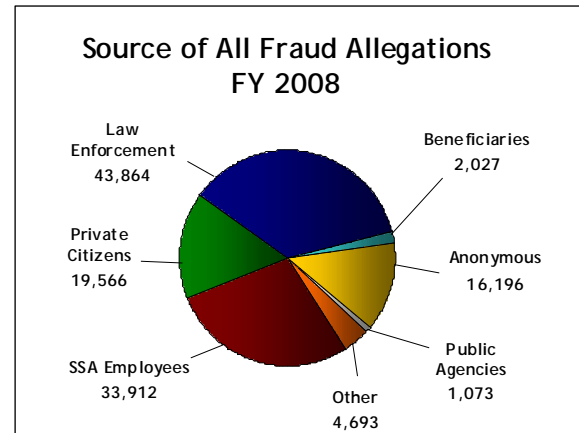
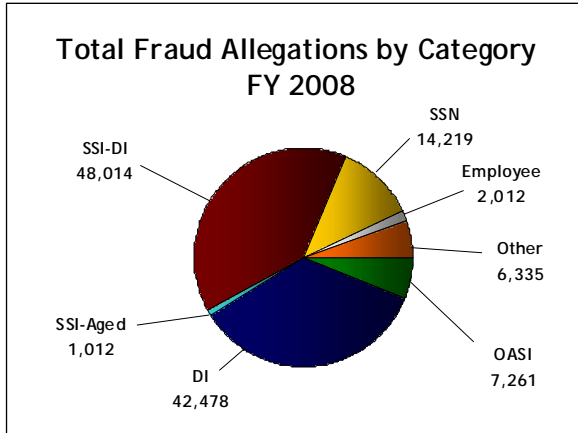
SSI redeterminations are periodic reviews to ensure that a recipient is still eligible for SSI payments and that the payments are being made in the correct amount. We set a goal for the number of SSI redeterminations to be processed in FY 2008. Detailed discussion on SSI redetermination performance can be found in the *Performance Section* of this report on pages 59-60.

PAYMENT SAFEGUARD ACTIVITIES

Numerous computer matching programs and other payment safeguard activities assist us in finding and correcting erroneous payment actions and in identifying and deterring fraud in our entitlement programs. In continuing efforts to improve payment accuracy, we invested an estimated \$902 million in processing over 8.9 million cases in FY 2007. Current estimates indicate that these payment safeguard activities provided benefits to the OASDI trust funds and the United States Treasury of over \$4.7 billion in retroactive overpayments detected and future overpayments prevented. Future preventions are calculated by projecting the amount of change to recurring monthly benefits to some number of future months. The projection of the number of future months that a change in the recurring monthly benefit amount can last varies and can depend on the source of the data and/or the frequency of the activity that led to the change. The FY 2008 results of these payment safeguard activities will be available in 2009.

THE OFFICE OF THE INSPECTOR GENERAL'S ANTI-FRAUD ACTIVITIES

In FY 2008, as part of our fraud detection and prevention program for safeguarding the agency's assets, we worked with our Office of the Inspector General, the U.S. Attorney, and other State and local agencies on cases involving fraud and abuse. The charts below summarize the Office of the Inspector General's involvement in fraud activities throughout the fiscal year.



BIENNIAL REVIEW OF USER FEE CHARGES

SUMMARY OF FEES

User fee revenues of \$284 million and \$346 million in FY 2007 and FY 2008, respectively, accounted for less than one percent of our total financing sources. Over 81 percent of user fee revenues are derived from agreements with 23 states and the District of Columbia to administer some or all of the states' supplemental SSI benefits. During FY 2008, we charged a fee of \$9.95 per payment for the cost of administering state supplemental SSI payments. This fee will increase to \$10.45 for FY 2009. The user fee will be adjusted annually based on the Consumer Price Index unless we determine a different rate is appropriate for the states. We charge full cost for other reimbursable activity such as earnings record requests from pension funds and individuals.

BIENNIAL REVIEW

The *Chief Financial Officers Act of 1990* requires biennial reviews by Federal agencies of agency fees and other charges imposed for services rendered to individuals, as opposed to the American public in general. The objective of these reviews is to identify such activities, charge fees as permitted by law, and periodically adjust these fees to reflect current costs or market value. Our review of fees during FY 2008 did not identify any significant changes in costs which would affect fees or any agency activities for which new fees need to be assessed. We are planning to perform another review of these fees during FY 2010.

DEBT MANAGEMENT

During FY 2008, we continued our comprehensive debt collection program. We use our own internal debt collection methods, as well as other authorized, aggressive methods which in some cases make use of external entities. In FY 2008, we collected \$2.81 billion in program benefit overpayments through our debt collection techniques. For a more detailed discussion of our debt collection tools, please refer to the Improper Payments Information Act of 2002 Detailed Report immediately following this section.

In addition, we continue to use the system developed in FY 2002 to analyze and monitor our debt portfolio. The system is instrumental in creating and tracking a performance measure for debt collection. This measure is the percent of outstanding OASDI and SSI debt that is scheduled for collection by benefit withholding or installment payment. We recognize that these performance indicators can be improved by focusing overpayment recovery efforts on those overpayments most likely to result in collections. We have underway a series of initiatives that will prioritize the overpayments that are not in a collection arrangement based on their potential for collection. This is expected to lead to an increase in the rate of collection and more efficient use of available resources.

The following collection data include all the program debt owed to the agency and are presented on a combined basis without intra-agency eliminations.

FY 2008 Quarterly Debt Management Activities (In Millions)				
	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total receivables (cumulative)	\$14,390.7	\$14,434.3	\$14,562.5	\$14,912.3
Total collections (cumulative)	(843.1)	(1,628.9)	(2,400.5)	(3,241.5)
Total write-offs (cumulative)	(203.5)	(445.3)	(732.1)	(1,010.2)
TOP collections (cumulative)	(2.6)	(52.9)	(98.7)	(109.0)
Aging schedule of delinquent debts:				
- 180 days or less	1,166.6	1,012.6	1,022.9	1,106.0
- 181 days to 10 years	2,616.1	2,620.6	2,540.2	2,529.1
- Over 10 years	88.7	89.4	95.3	101.7
- Total delinquent debt	\$3,871.4	\$3,722.6	\$3,658.4	\$3,736.8

Debt Management Activities					
	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008
Total debt outstanding end of FY (millions)	\$12,260.2	\$13,154.8	\$13,662.3	\$14,253.4	\$14,912.3
% of outstanding debt					
- Delinquent	20.3%	21.8%	23.9%	24.6%	25.1%
- Estimated to be uncollectible	24.6%	24.2%	24.4%	27.4%	27.1%
New debt as a % of benefit outlays	0.8%	0.8%	0.9%	0.8%	0.9%
% of debt collected	18.3%	18.5%	20.2%	20.1%	21.3%
Cost to collect \$1	\$0.09	\$0.09	\$0.08	\$0.07	\$0.07
% change in collections from prior FY	(2.5%)	9.5%	13.4%	3.5%	11.1%
% change in delinquencies from prior FY	(2.1%)	15.3%	13.9%	7.6%	6.5%
Collections & write-offs as a % of Total Debt	18.0%	19.3%	21.2%	20.6%	21.1%
Collections as a % of clearances	71.6%	74.3%	71.1%	74.4%	75.9%
Total write-offs of debt (in millions)	\$892.7	\$841.8	\$1,123.6	\$986.1	\$1,010.2
Average number of months to clear receivables:					
- OASI	22	20	18	18	18
- DI	38	30	29	39	40
- SSI	47	42	43	42	36

IMPROPER PAYMENTS INFORMATION ACT OF 2002 DETAILED REPORT

BACKGROUND

We are committed to reducing improper payments. We report improper payment findings (both overpayments and underpayments) from our stewardship reviews of the non-medical aspects of Old-Age and Survivors' Insurance (OASI), Disability Insurance (DI), and Supplemental Security Income (SSI) programs on an annual basis. In accordance with Office of Management and Budget (OMB) guidelines implementing the provisions of the *Improper Payments Information Act of 2002* (IPIA), we report as improper those payments that should not have been made or were made in an incorrect amount. Data from these reviews are also used in corrective action planning and in monitoring performance as required by the *Government Performance and Results Act of 1993*.

STATISTICAL SAMPLING

The Old-Age, Survivors, and Disability Insurance (OASDI) payment accuracy rates developed in the stewardship review reflect the accuracy of payments issued to OASDI beneficiaries currently on the SSA rolls. In addition to the combined payment accuracy rates for OASDI, we calculate separate rates for OASI and DI. We select a statistically valid national sample monthly from the payment rolls consisting of OASDI beneficiaries in current pay status. For each sample selected, the beneficiary or representative payee is interviewed, collateral contacts are made, as needed, and all non-medical factors of entitlement are redeveloped as of the current sample month. We input the findings to a national database for analysis and report preparation. Similarly, we determine the SSI payment accuracy rates by an annual review of a statistically valid national sample of the SSI recipient rolls, selected monthly. We determine separate rates for the accuracy of payments in terms of overpayment and underpayment dollars.

RISK-SUSCEPTIBLE PROGRAM

The SSI program has been identified as susceptible to significant improper payments; i.e., estimated improper payments exceed 2.5 percent of program outlays and \$10 million (see Table 1). SSI's estimated improper payments are expressed separately in terms of overpayments and underpayments. For fiscal year (FY) 2007, improper payments resulting in overpayments were \$3.9 billion, or 9.1 percent of outlays. Improper payments resulting in underpayments totaled \$652 million representing 1.5 percent of total outlays. Every tenth of a percent change represents \$42.6 million dollars in error. Even though the OASI and DI programs are not identified as susceptible to significant improper payments, IPIA has extended the improper payments reporting requirements to those programs and activities listed in the former Section 57 of OMB Circular No. A-11.

Since the OMB guidance on IPIA requires the evaluation of all payment outlays, e.g., beyond the OASI, DI, and SSI programs that we administer, for the fifth consecutive year we performed a review of our administrative payments, e.g., payroll disbursements, vendor payments, etc. These payments were found not to be susceptible to significant improper payments.

IMPROPER PAYMENT RATES AND TARGET GOALS

The improper payment rates for the OASI, DI, and SSI programs for FYs 2005, 2006, and 2007 are presented in Table 1. The overpayment rate is calculated by dividing overpayment dollars by dollars paid. The underpayment rate is calculated by dividing underpayment dollars by dollars paid. However, there may be differences due to rounding. The percentages and dollar amounts presented in Table 1 are correct based on actual numbers used from the source data.

Target accuracy goals for FYs 2008, 2009, 2010, and 2011 for the OASDI and SSI programs are presented in Table 2. In the OASDI program, our goal is to maintain accuracy at 99.8 percent for both overpayments and underpayments. For the SSI program, our goal is to achieve an underpayment accuracy rate of 98.8 percent and an overpayment accuracy rate of 96.0 percent for FYs 2008–2011.

Table 1: Improper Payments Experience FY 2005 - FY 2007
(\$ in millions)

	FY 2005		FY 2006		FY 2007	
	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASI						
Total Payments	\$430,400	100%	\$454,300	100%	\$479,500	100%
Underpayments	\$507	0.12%	\$238	0.05%	\$580	0.12%
Overpayments	\$210	0.05%	\$948	0.21%	\$345	0.07%
DI						
Total Payments	\$83,800	100%	\$90,700	100%	\$97,300	100%
Underpayments	\$473	0.56%	\$442	0.49%	\$175	0.18%
Overpayments	\$2,100	2.55%	\$877	0.97%	\$864	0.89%
OASDI						
Total Payments	\$514,200	100%	\$545,000	100%	\$576,800	100%
Underpayments	\$980	0.19%	\$680	0.12%	\$754	0.13%
Overpayments	\$2,300	0.45%	\$1,824	0.33%	\$1,209	0.21%
SSI						
Total Payments	\$39,068	100%	\$40,328	100%	\$42,600	100%
Underpayments	\$528	1.4%	\$896	2.2%	\$652	1.5%
Overpayments	\$2,500	6.4%	\$3,193	7.9%	\$3,900	9.1%

Notes:

1. Total Payments represent estimated program outlays while conducting the payment accuracy reviews and may vary from actual outlays.
2. There may be slight variances in the dollar amounts and percentages reported due to rounding of source data.
3. OASI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2005, +0.13% and -0.11% for underpayments and +0.05% and -0.04% for overpayments; for FY 2006, +0.05% and -0.04% for underpayments and +0.24% and -0.20% for overpayment; and for FY 2007, +0.11% and -0.14% for underpayments and +0.06% and -0.07% for overpayments.
4. DI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2005, +0.64% and -0.56% for underpayments and +1.81% and -1.82% for overpayments; for FY 2006, +0.64% and -0.48% for underpayments and +0.85% and -0.85% for overpayments; and for FY 2007, +0.17% and -0.19% for underpayments and +0.85% and -0.84% for overpayments.
5. SSI statistical precision is at the 95% confidence level for all rates shown. Confidence intervals are: for FY 2005, ±0.3% for underpayments and ±0.9% for overpayments; for FY 2006, ±0.5% for underpayments and ±1.0% for overpayments; and for FY 2007, ±0.4% for underpayments and ±1.9% for overpayments.

Table 2: Improper Payments Reduction Outlook FY 2008 - FY 2011
(\$ in millions)

	2008 target		2009 target		2010 target		2011 target	
	Dollars	Rate	Dollars	Rate	Dollars	Rate	Dollars	Rate
OASDI								
Total Payments	\$605,927	100%	\$646,908	100%	\$686,633	100%	\$725,672	100%
Underpayments	\$1,212	0.2%	\$1,294	0.2%	\$1,373	0.2%	\$1,451	0.2%
Overpayments	\$1,212	0.2%	\$1,294	0.2%	\$1,373	0.2%	\$1,451	0.2%
SSI								
Total Payments	\$45,588	100%	\$48,431	100%	\$50,977	100%	\$52,806	100%
Underpayments	\$547	1.2%	\$581	1.2%	\$612	1.2%	\$634	1.2%
Overpayments	\$1,823	4.0%	\$1,937	4.0%	\$2,039	4.0%	\$2,112	4.0%

Notes:

1. We do not have separate OASI and DI targets (goals); therefore, a combined OASI and DI target is presented.
2. FY 2008 data will not be available until April 2009; therefore, the rates shown are targets (goals).
3. The FYs 2008, 2009 and 2010 payment dollars represent estimated outlays as presented in the Mid-Session Review of the President's FY 2009 Budget. The projections for FY 2011 are adjusted (from those presented in the Mid-Session Review) because there are 13 payment days in that year, yet the quality review is not affected by payment days, but rather by entitlement months.

IMPROPER PAYMENTS IN THE OASI AND DI PROGRAMS

To better track the causes of improper payments in the OASI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last five years (FYs 2003-2007), a total of over \$2.2 trillion was paid to OASI beneficiaries. Of that total, \$3.1 billion was projected to be overpaid, representing 0.14 percent of outlays. Underpayments during this same period were projected to be \$2.1 billion, the equivalent of 0.09 percent of outlays.

Applying the same analysis to the DI program, we find that over the last five years, (FY's 2003-2007), a total of over \$419.8 billion was paid to DI beneficiaries. Of that total, \$6.2 billion was overpaid, representing 1.5 percent of outlays. Underpayments during this same period totaled \$1.9 billion, the equivalent of 0.5 percent of outlays.

MAJOR CAUSES OF OASDI IMPROPER PAYMENTS

Major causes of improper overpayments in the OASDI program over this 5-year period are listed below (followed by a detailed description under the Corrective Actions section) and account for nearly 80 percent of the improper overpayments identified.

- Substantial Gainful Activity (SGA)
- Computations
- Government Pension Offset
- Relationship/Dependency (e.g., unreported marriage, not having child-in-care, and students not in full-time school attendance)
- Annual Earnings Test

The major causes of improper underpayments in the OASDI program have been:

- Computations
- Workers' Compensation (WC)
- Wages/Self-Employment Income (SEI)

While the improper payment rate in the OASDI program is very low, our annual outlays are so large that even small percentages of payment error can mean millions of dollars paid incorrectly. For the 5-year period from FY 2003 through FY 2007, OASDI deficiency dollars totaled \$13.3 billion, an average of about \$2.6 billion per year. Accordingly, we seek continuous improvement in our processes to minimize improper payments.

CORRECTIVE ACTIONS

SGA: Although SGA is strictly an issue for Title II DI cases, errors attributed to SGA accounted for almost 50 percent of all OASDI overpayment deficiency dollars for the last five FYs (2003-2007).

Currently, SGA-related deficiency dollars are at the lowest level in the last five years. However, errors involving SGA remain a significant problem area and while the number of SGA error cases remains low, the error dollars for these cases are often substantial. In terms of all errors (both overpayments and underpayments) for FYs 2003 through 2007, SGA accounted for about 36 percent of total OASDI deficiency dollars.

The process for making SGA determinations has inherent delays that contribute to the magnitude of the overpayments. About 85 percent of the deficiency dollars associated with SGA are due to the beneficiary's failure to report that he/she is working. The remaining 15 percent of the deficiency dollars is associated with cases where we receive notice of work activity, but fail to take appropriate action to adjust payment. To address the "failure to report" issue, we are analyzing a segment of cases to determine if improvements can be made in the alerts and work development. Currently, many invalid work alerts are generated which creates non-productive work. In addition, requests for work development are not initiated until an SSA employee reviews work history based on alerts produced by postings to the Modernized Earnings File. Our current analysis will determine if it is more efficient to automate work development requests much earlier in the process.

DEATH NOTIFICATION: Timely and accurate death data enables us to better effectively administer programs and increase prevention of incorrect payments. We are working with state governments and other jurisdictions to improve the current death registration process. The most efficient manner to improve timeliness and accuracy of state data is by using an Electronic Death Registration (EDR) system, a web-based automation of the death registration process. EDR electronically links the participants in death registration and contains an online real-time Social Security Number (SSN) verification process. Our goal is to receive a verified death report within five days of death and within 24 hours of the report's receipt in the state repository. EDR helps improve the accuracy of the death master file that we share with other Federal agencies. We currently receive death data via EDR from 22 states, New York City, and the District of Columbia. Eight states are in the process of implementing EDR. These states will implement during FYs 2008-2010.

COMPUTATIONS: For the last five FYs (2003-2007), errors attributed to computations accounted for about 64 percent of all OASDI underpayment deficiency dollars and 12 percent of all OASDI overpayment deficiency dollars. In terms of all errors, computations accounted for 19 percent of total OASDI deficiency dollars for the period.

For the 5-year period, leading causes of computational-related underpayments were calculations involving the Windfall Elimination Provision (WEP), family maximums, Automatic Earnings Reappraisal Operation (AERO), primary insured amount, and adjusted retirement factor/delayed retirement credit. WEP errors can create large underpayments and result from a WEP exception not being appropriately applied to the beneficiary. When pension information is not provided timely, an overpayment will often result. That is to say, when we become aware of a beneficiary's receipt of a pension, a new computation is used which often results in a lower benefit amount which subsequently results in an overpayment. Nearly 77 percent of the overpayment computational deficiency dollars for the FY 2003 through 2007 period involved WEP.

We are providing training in the use of two new automation tools, AeroWiz and MacPaste, for all technicians involved in processing computations. Continued use of these tools will address some of the issues with the computation errors.

RELATIONSHIP/DEPENDENCY: This category involves a variety of issues such as unreported remarriage, not having child-in-care, and students who were not in full-time attendance. In the Relationship/Dependency category, about 52 percent of deficiency dollars represent situations in which the beneficiary did not report remarriages. Deficiency dollars in this category are all overpayments, of which about 82 percent are OASI overpayments. Errors attributed to relationship/dependency issues accounted for about six percent of all OASDI overpayment deficiency dollars. This category accounted for about four percent of total OASDI deficiency dollars.

We are evaluating several recommendations to address relationship/dependency errors. These recommendations include potential systems enhancements related to entitlement of stepchildren, procedural revisions, and a possible legislative change.

WAGES/SEI: Wages or self-employment errors result when the earnings record does not accurately reflect the individual's earnings and the error is not detected when the individual files for benefits. Although earnings-related errors involve small dollars in the sample month, they can have a substantial impact over the life of the claim. Unless discovered in a review such as a quality review, earnings-related deficiencies reflect an incorrect payment that will continue for the life of the claim. Earnings-related errors most often result in underpayments to the beneficiary. For the FY 2003 through 2007 period, about 68 percent of the deficiency dollars for this category were underpayments. Errors involving earnings accounted for about 11 percent of all OASDI deficiency dollars for FYs 2003 through 2007.

We have taken a number of actions to reduce earnings-related errors. We added language to the improved Social Security Statement to remind the public to inform us of incorrect earnings postings. Beginning in FY 2000, all workers age 25 or over began receiving their statements, thereby giving them the opportunity to review and correct any earnings record errors before they file for benefits.

For use with applicants, we have replaced the Earnings Computation alerts by the Earnings Alert Record Query for processing all claims. The Earnings Alert Record Query is a stand-alone query that checks the Master Earnings File for potential earnings irregularities on an individual's earnings record for years after 1977 (1978 and later). We implemented these alerts to enhance the detection of possible earnings irregularities and to eliminate unnecessary wage development during the earnings record review.

We have also improved earnings record accuracy through increases in electronic filings that reduce the number of items requiring later correction. These improvements enabled us to exceed our goal (80 percent) to receive all Form W-2s electronically for tax year 2007. For tax year 2008, our goal is to receive 81 percent of all W-2s electronically. As of July 2008, we had received 213,937,728 (86.3 percent) of W-2s electronically.

To improve the posting of earnings records further, in June 2005 we implemented the Social Security Number Verification Service. The Social Security Number Verification Service allows registered employers or their third party representatives to verify the names and SSNs of hired employees for wage reporting purposes. Over the internet, users can verify up to 10 names and SSNs per screen with immediate results or upload a file with up to 250,000 names and SSNs with the results available the next business day. In calendar year 2008, through July 4, 2008, we have verified over 43.8 million names/SSNs for nearly 32,000 employers.

Earnings that are not posted to an earnings record after the annual posting cycle go to a suspense file. These wage or self-employment earnings are not matched to an earnings record after all routine matching operations are complete. We are working to develop automated processes and system prototypes to:

- Identify accounts with significant probability of having missing earnings/military service;
- Search the suspense file for missing earnings; and,

- Match and move items from suspense to the beneficiary's earnings record.

We have also initiated several processes to re-examine the suspense file to electronically identify and post to the correct earnings records millions of dollars of earnings. We expect this re-examination process will produce information that will help us to better manage the suspense file. In addition, we developed a software program (Manual Suspense Items Reinstatement – MSIR) that is being used in the Wilkes-Barre Data Operations Center to manually look at earnings suspense file items that scored high in matching routines, but not high enough to be reinstated through one of the automated processes. In FY 2008, MSIR reinstated nearly 20,000 items from tax years 1999 and 2002 to the Master Earnings File, totaling over \$95 million.

WORKER'S COMPENSATION (WC): We have an ongoing effort to prevent future problems in the WC area, as well as clean up past problem cases. However, this manually-intensive workload continues to be a challenge. Although WC offset is solely limited to Title II DI cases, errors involving various types of WC offset accounted for about 11 percent of all Title II deficiency dollars for FYs 2003 through 2007. During this period, the vast majority of the WC deficiency dollars were underpayments, approximately 76 percent of the WC deficiency total.

Many of the problems associated with this complex workload are due to technical difficulties in determining the correct rates and dates to be used in WC computations. There is no automated verification of WC payments, so we rely mainly on beneficiary disclosure of WC payments and changes. Many beneficiaries do not report this information on a timely basis, if at all. Consequently, some of these individuals are paid a higher Social Security disability benefit than they are eligible for, while others are underpaid since their WC stopped and their SSA benefit amount is not increased accordingly.

In addition, the variations in state laws regarding the offset of Social Security benefits for both WC payments and public disability benefits (PDB) contribute to payment problems. Some beneficiaries also receive a combination of periodic WC/PDB payments and a lump-sum settlement. The combination of variance in state laws and multiple types of payments of WC/PDB received by a beneficiary often results in technical errors.

Although much work remains in the WC area, there are signs of improvement. Enhancements to the Interactive Computation Facility for computing WC offset, specialized training for technicians, a national WC website, and the rewrite of the WC chapter of the Program Operations Manual Systems are among the initiatives underway to reduce errors for this complex workload. In addition, we are conducting an ongoing review targeted at recent WC adjudications.

In FYs 2006 and 2007, our processing centers conducted a series of studies to identify cases with a high probability of error to work in future years. These cases were reworked as part of a "clean-up" workload.

In FY 2008, we cleared nearly 10,000 clean-up cases, using the criteria developed in FY 2006 to determine which cases yield the highest return for investment, while continuing to concentrate on the quality of current WC processing. For FY 2009, we are expecting to clear another 6,500 cases. In addition to the clean-up cases, we worked to reduce occurrences of overdue California State Disability Income (SDI) terminations. In FY 2008, we worked 4,400 new alerts for SDI payments and corrected a backlog of 4,890 cases.

ANNUAL EARNINGS TEST (AET): AET errors involve situations where deductions in payments related to a beneficiary's work after retirement age were not taken into account or were not computed properly. AET errors accounted for about four percent of all Title II deficiency dollars for FYs 2003 through 2007. Nearly 88 percent of the deficiency dollars in this category are OASI overpayments.

When a person has earnings after retirement, he/she is asked to report his/her earnings when those earnings exceed the annual exempt amount or when a change in expected earnings will affect benefits payable. We use these reports to adjust benefits for the year. Our stewardship review data indicates the leading cause of AET error is that wages were not reported or were reported incorrectly. We are running the AET enforcement program three times per year in order to reduce improper payments in this area.

If a beneficiary does not provide an annual estimate or report (or provides an incorrect report), the enforcement process will identify the earnings when they are posted to the earnings record. We will develop through the field office to determine if withholding of benefits is applicable. Stewardship reviewers do not record an AET error until after the full enforcement process has been completed for a particular year.

GOVERNMENT PENSION OFFSET (GPO): GPO rules generally require Social Security benefits for a spouse or surviving spouse who receive a monthly pension from a Federal, state or local government agency to be reduced. All of the deficiency dollars in this category are OASI overpayments. Errors attributed to GPO accounted for six percent of all OASDI overpayment deficiency dollars. This category accounted for four percent of total OASDI deficiency dollars. There is a current legislative proposal in the President's FY 2009 budget that would require state and local governments to provide data directly to us for work not covered by Social Security. If implemented, this legislation would permit timely processing of these types of cases, thereby reducing errors due to government pension offset.

IMPROPER PAYMENTS IN THE SSI PROGRAM

In order to track the causes of improper payments in the SSI program and to help pinpoint areas for corrective action, improper payment sample data are combined for several years of quality assurance reviews. Over the last five years, (FY's 2003-2007), we paid a total of \$195.2 billion to SSI recipients. Of that total, \$14.2 billion was overpaid, representing 7.3 percent of outlays. Underpayments during this same period totaled \$3 billion, the equivalent of 1.5 percent of outlays.

MAJOR CAUSES OF SSI IMPROPER PAYMENTS

For the 5-year period, FY 2003-2007, the major causes of overpayments in the SSI program (followed by a detailed description under the Corrective Actions section) were:

- Wages
- Financial Accounts (such as bank savings or checking accounts, credit union accounts, etc.)

Each of these causes individually exceeded the sum of the next three leading causes of overpayment deficiencies.

The major causes of underpayments in the SSI program for the same period (followed by a detailed description under the Corrective Actions section) were:

- Wages
- In-kind Support and Maintenance
- Living Arrangement "A"

CORRECTIVE ACTIONS

For the entire 5-year period, 74 percent of the overpayment improper payments were caused by a change that occurred independent of an initial claim, redetermination, or limited issue.

WAGES: Wages have been one of the leading deficiency types for overpayment improper payments in the last five years. They accounted for about 20 percent of total overpayment improper payments during the 5-year period. The major factor (91 percent) in wage overpayment improper payments was the failure of recipients/representative payees to provide an accurate and timely report of new or increased wages for the recipient or deemor. Wage overpayments increased from \$778 million in FY 2006 to \$803 million in FY 2007, a three percent increase.

In an effort to achieve more timely and accurate reporting of wages, we have completed a pilot to test the feasibility of implementing large-scale monthly wage reporting using touch-tone and voice-recognition telephone technology for the SSI program. Specifically, we tested whether SSI recipients (or their representatives, parents or spouses,

where deemed wages affect benefit payments) would report wages monthly using this new technique. The key issues were the timeliness and accuracy of the reports and the willingness of the participants to consistently report over an extended period.

Effective July 2008, we made enhancements to the authentication system and implemented other necessary systems changes to support telephone wage reporting. We are implementing this new telephone reporting system and will be recruiting people to participate when they visit their local office to conduct business; e.g., file an initial claim for SSI payments or when interviewed for a scheduled redetermination. There should be a gradual increase in the number of participants over the remainder of FY 2008 and into FY 2009.

In FY 2008, we completed just over 1.2 million non-medical redeterminations and limited issue reviews of SSI recipients. Redeterminations increased by over 200,000 compared to FY 2007 while the number of limited issue reviews remained about the same.

Wages have been the leading cause of underpayment improper payments in four of the last five years, accounting for about 28 percent of total underpayment improper payments during the 5-year period. The major factor (81 percent) in wage underpayment improper payments was the failure of recipients/representative payees to report a decrease or termination in wages for the recipient or deemor. Over the 5-year period, wages earned by deemors accounted for 64 percent of underpayment improper payments and wages earned by recipients accounted for 36 percent of underpayment improper payments.

For the 5-year reporting period, wage fluctuations accounted for 64 percent of underpayment wage improper payments. The remaining improper payments resulted because recipients/representative payees failed to report a reduction or termination of wages, or because of miscellaneous reasons; e.g., wages were deemed that should not have been deemed. Regular and accurate monthly wage reports will help reduce underpayments caused by wages.

In addition to improved wage reporting technology, we also implemented new wage interface alerts in June 2008 designed to detect instances of potential underpayment. These new alerts compare the information held by the Office of Child Support and Enforcement and our Master Earnings File. The interface match determines if the wage amounts used to compute an individual's payment amount may have resulted in less SSI being paid than was due. Any wage mismatches identified through this process are posted to the individual's SSI record for further development and resolution.

FINANCIAL ACCOUNTS: For the 5-year period, financial accounts were one of the leading causes of overpayment improper payments, accounting for about 20 percent of the total overpayment dollars. For FY 2007, financial account overpayment deficiencies project to \$863 million.

Financial account deficiencies occur when financial accounts owned by the recipient or deemor (parent or spouse of an eligible individual) exceed the resource limit and the recipient becomes ineligible for SSI payments. For each year in the 5-year period, the regional quality performance offices found undisclosed bank accounts or an increase in the amount of an account that the recipient or representative payee did not disclose to us. This accounts for 96 percent of the total overpaid dollars for the past five years.

Each year, the majority of improper payments in this category were attributed to changes that occurred subsequent to an initial claim or after completion of the last redetermination or limited issue related to financial accounts (e.g., 1099 alert). That is, these improper payments developed after we had been in contact with the recipient. In FY 2007, 86 percent of the improper payments in this category fit this description.

The *Foster Care Independence Act of 1999* gives the Commissioner the authority to require SSI applicants and recipients and those individuals whose income and resources we consider in determining an individual's eligibility and benefit amount (deemors) to provide authorization for the agency to obtain any and all financial records from any and all financial institutions. Refusal to provide, or revocation of, an authorization may result in ineligibility for SSI. In an effort to reduce the amount of overpayments caused by financial accounts, we promulgated final regulations in FY 2004 that exercised the Commissioner's authority to require the authorization that set the stage to

allow us to query financial institutions electronically. In February 2004, we began a proof of concept to test the feasibility of financial institutions accepting electronic bank account verification requests. The proof of concept demonstrated that an electronic asset verification system would enable us to find undisclosed assets at the time of application.

Since the proof of concept we have been operating the Access to Financial Information process in New York, New Jersey, and most recently in California (beginning in November of 2007). Should funding become available, we will extend the Access to Financial Information process nationwide. Until such resources are available, we are continuing the operation of the Accuity system in the New York/New Jersey/California field offices and in our Quality Performance offices to assist them in detecting bank account errors as part of the annual stewardship review process.

IN-KIND SUPPORT AND MAINTENANCE (ISM): ISM deficiencies were the second leading cause of underpayment error dollars over the last five years, accounting for 19 percent of the total underpaid dollars. The primary cause of ISM underpayment improper payments for the 5-year period was when the recipient was no longer receiving ISM yet it continued to be figured into the payment calculation (83 percent). This occurred because a change was not reported or we received an incomplete/inaccurate report (75 percent) and because field offices inaccurately processed cases (21 percent). The remainder occurred because of administrative tolerances or mail-in redeterminations that did not solicit information to identify the change in ISM. For the 5-year period, 70 percent of the ISM improper payments resulted from a change subsequent to an initial claim or after the last redetermination/related limited issue.

We are continuing to look at options for simplifying living arrangements and ISM policies that we believe would contribute to a reduction in underpayments.

LIVING ARRANGEMENTS: Living arrangement “A” was the third leading cause of underpayment improper payments for the last five years, accounting for 18 percent of the total underpaid dollars. This category includes people who should have been paid based on “living in own household” (e.g., home ownership, rental liability, paying pro rata share of household expenses, but were paid based on another living arrangement.)

Over the five years, this deficiency primarily occurred (88 percent) when the recipient was charged with the value of the one-third reduction (the reduction factor when a recipient is not paying his or her full share of the household expenses) and it no longer applied. Overall, the vast majority of underpaid dollars (78 percent) in this category occurred because recipients and representatives initially provided an incomplete or inaccurate report or failed to report a change. For each year in the 5-year period, almost two-thirds of the underpayment improper payments were caused by a change that occurred after an initial claim or after the last redetermination/related limited issue.

The redetermination process is one of our most powerful tools for preventing and detecting improper SSI payments. As described above, the vast majority of improper payments occur at a point in time when we are not in contact with the individual. Clearly, more frequent redeterminations will result in reductions in the level of improper payments.

MEDICAL ASPECTS OF THE DI AND SSI PROGRAMS

The medical aspects of the DI and SSI programs are administered through state agencies at the initial claim, reconsideration, and continuing disability review stages of the disability process. We have established net accuracy rate goals for Disability Determination Service (DDS) allowance and denial decisions. The goals reflect the percent of initial claims that maintain their original DDS decision after Federal review and subsequent additional development, as required.

The allowance, denial, and overall accuracy rates for FYs 2006 and 2007 are presented in Table 3. These rates are determined by our quality assurance review of initial claims. We review all sampled determinations prior to effectuation and deficient cases are returned and corrected.

Starting in FY 2003, we established a combined allowance and denial goal for net accuracy. The goal for FY 2008 is 97 percent. FY 2008 data will be available in January 2009.

Table 3: DDS Initial Claim Net Accuracy

Initial Claim Net Accuracy	FY 2006	FY 2007
Allowance	98.1%	98.4%
Denial	95.1%	95.6%
Combined	96.2%	96.6%

Note: The changes from FY 2006 to FY 2007 are not statistically significant.

The *Social Security Act* also requires a review of 50 percent of the favorable DI and concurrent DI/SSI initial and reconsideration DDS determinations; i.e., pre-effectuation reviews (PER). To the extent feasible, we make the selection from those determinations most likely to be incorrect.

Using a logistic regression methodology, initial and reconsideration allowances are profiled and cases falling within the established cut off score are selected for review. We review all sampled determinations prior to effectuation and return and correct deficient cases. For FY 2006, the Actuary estimates that PER saved \$609 million in lifetime DI, SSI, Medicare, and Medicaid payments, with a benefit/cost ratio of 13:1. We are currently calculating the results of those reviews.

The *Social Security Act* now includes an extension of the PER review of favorable adult disability decisions to the SSI program. This initiative supports the President's management reform to reduce improper payments, improves the accuracy and integrity of the SSI and Medicaid programs, and applies consistency to the DI and SSI programs. We anticipate significant program savings from this initiative.

FY 2008 is the first year we were required to review 50 percent of all allowances in the SSI program. In FY 2007, we were required to review 40 percent of SSI allowances. We are currently calculating the results of those reviews.

IMPROPER PAYMENTS FOR ADMINISTRATIVE OUTLAYS

We conducted an evaluation of our FY 2007 administrative payments and determined them not to be susceptible to significant improper payments. In FY 2007, we outlaid \$10,465 million to administer the OASI, DI, and SSI programs. These costs largely consisted of payroll and benefits but also included payments to state agencies for the DDS.

RISK ASSESSMENT

We segmented administrative payments into several categories and used the categories to analyze and determine the vulnerability of these outlays to improper payments.

Table 4: FY 2007 Administrative Expenses
(\$ in millions)

Payroll and Benefits	\$5,448
State DDS	\$1,783
Other Administrative Expenses*	\$3,234
Total Administrative Payments	\$10,465

Notes:

*Other Administrative Payments includes Travel, Transportation, Rents, Communications & Utilities, Printing and Reproduction, Other Services, Supplies and Materials, Equipment, Land & Structure, Grants, Subsidies, & Contributions, Information Technology Systems, OASI and DI Trust Fund Operations, Other Dedicated Accounts, Other Reimbursable, Budget not allotted and allowed, Interest & Dividends, and Insurance Claims and Indemnities.

Using OMB guidelines, we conducted a risk assessment on each of the categories listed in Table 4. We reviewed the payment categories and assessed any identified improper payments versus the entire payment category. The result of this analysis showed that our administrative payments were not susceptible to significant improper payments.

As part of the risk assessment, we also considered the following factors:

- A number of financial statement audits, which identified no significant weaknesses in the administrative payment process;
- Extensive edits inherent in our administrative payment systems; and,
- The strong internal control structure we have in place to prevent, detect, and recover improper administrative payments.

Based on the results of the overall risk assessment, we determined that our administrative payments do not meet the criteria for further reporting to Congress or OMB based on the OMB-issued guidance.

RECOVERY AUDIT PROGRAM

Section 831 of the *Defense Authorization Act for FY 2002* added a subchapter to the U.S. Code (31 USC 3561-3567) that requires agencies that enter into contracts with a total value in excess of \$500 million in a FY to carry out a cost-effective program for identifying errors made in paying contractors and for recovering amounts erroneously paid to the contractors. A required element of such a program is the use of recovery audits and recovery activities.

OMB guidance states that agencies shall have a cost-effective program of internal control to prevent, detect, and recover overpayments to contractors resulting from payment errors. To comply with this guidance and support the evaluation that administrative payments are not susceptible to significant improper payments, we have established an in-house recovery audit program for administrative payments to address recovery issues related to recovering and limiting improper sales tax, excise tax, and late payment charges. Additionally, we use computer-assisted auditing techniques to identify possible duplicate payments. Our in-house recovery audit program employs an automated query system to identify payments made to the same vendor, with the same invoice date, and for the same amount to help identify payments that represent a higher risk of being double payments.

Results from our in-house recovery audit program and quality review process continue to confirm that Administrative Payments are well below the threshold established for reporting improper payments. These results further validate and reinforce our existing controls for the prevention, detection, and collection of improper payments.

PROGRAM SCOPE

The recovery audit program scope included a review of administrative contractor payments for FY 2007 totaling \$1.4 billion. Of that amount, about 0.23 percent or \$3,176,361 had been identified and collected. These results further validated our existing controls for prevention, detection, and collection of administrative improper payments.

We elected to exclude the following classes of contracts from the scope of the recovery audit:

- Cost-type contracts that have not been completed where payments are interim, provisional, or otherwise subject to further adjustment by the Government in accordance with the terms and condition of the contract.
- Cost-type contracts that were completed, subjected to final contract audit and, prior to final payment of the contractor's final voucher, all prior interim payments made under the contract were accounted for and reconciled.

Table 5: FY 2007 Recovery Auditing Results
(\$ in millions)

Agency Component	Amount subject to Review for CY Reporting	Actual Amount Reviewed and Reported CY	Amounts Identified for Recovery CY	Amounts Recovered CY	Amounts Identified for Recovery PYs	Amounts Recovered PYs	Cumulative Amounts Identified for Recovery (CY + PYs)	Cumulative Amounts Recovered (CY + PYs)
Administrative Expenses	\$1,392	\$11.995	\$3.176	\$3.176	\$1.909	\$1.909	\$5.085	\$5.085

ACCOUNTABILITY FOR IMPROPER PAYMENTS

In June 2002, we released the SSI Corrective Action Plan which outlined a multi-pronged approach to improve stewardship through increased overpayment detection and prevention, new measurement strategies, potential changes in SSI policies, and agency accountability. We are continuing our efforts to improve our management of the SSI program across three fronts: improved prevention of overpayments, increased overpayment detection, and increased collection of debt. To achieve these goals, agency executives are held accountable for meeting the initiatives in the SSI Corrective Action Plan. Progress is monitored in regular executive meetings.

AGENCY INFORMATION SYSTEMS TO REDUCE IMPROPER PAYMENTS

BACKGROUND

In the SSI Corrective Action Plan discussed above, we identified a number of information technology (IT) initiatives aimed at prevention, detection, and collection of improper payments. We have a formal process to plan and execute IT projects and the IT budget. The Information Technology Advisory Board (ITAB) is an executive body offering advice to our Chief Information Officer on areas of Capital Planning and Investment Control. The ITAB is comprised of the Chief Information Officer, Deputy Commissioner for SSA, all Deputy Commissioners, and other executive staff.

As part of the Capital Planning and Investment Control environment, the ITAB reviews and approves IT plans outlining Office of Systems' IT initiatives prior to the beginning of the fiscal year. These IT plans become the blueprint for the developmental and maintenance activity within the Office of Systems.

On a quarterly basis, the ITAB reviews the progress of each IT plan and the agreed capital investments. Major investments are assessed at key decision points to ensure they are well-founded, are achieved within the approved cost and schedule, and provide expected benefits. They may be redirected or terminated when necessary. These activities are key to our capital investment and control process.

IT STRATEGY

Starting in FY 2005, the "clusters" of IT projects were replaced with Strategic Objective (SO) Portfolios. These SO Portfolios are based on nine Strategic Objectives as defined in the Agency Strategic Plan. There are also two additional portfolios not corresponding to an Agency Strategic Objective: one for Infrastructure and one for Legislation. The majority of improper payment IT initiatives fall within two SO portfolios: 1) Improper payments; and 2) Manage finances.

Provided we develop the IT initiatives identified to improve preventing, detecting, and collecting improper payments and are given the resources to do so, we will be in a better position to achieve our strategic objectives in this area. The President's FY 2009 budget for the agency is \$10,327 billion for Limitation on Administrative Expenses, an increase of \$582 million in discretionary budget authority over our FY 2008 appropriation. With the President's FY 2009 budget, we will be able to process significantly more retirement claims and answer more

800-number calls, substantially reduce the hearings backlog, and process more program integrity work. The budget supports our efforts to improve payment accuracy through a broad range of activities designed to prevent and detect improper payments. These efforts include processing of nearly 100,000 more continuing disability reviews and nearly 300,000 more SSA non-disability redeterminations as compared to FY 2008, as well as the use of computer matches to identify and prevent overpayments. Through these activities, we can ensure the ongoing stewardship of our programs.

STATUTORY AND REGULATORY BARRIERS TO REDUCING IMPROPER PAYMENTS

We continuously develop legislative proposals to improve administration of the OASI, DI, and SSI programs. For example, several proposals that would make amendments to the OASI, DI, and SSI programs are included in the President's FY 2009 budget. One of the proposals would simplify administration of the DI program by modifying the rules for computing the reduction under the workers' compensation (WC) offset provision. Receipt of WC payments often results in a reduction in the benefits payable to a disabled worker and the worker's entitled family members.

WC OFFSET SIMPLIFICATION PROPOSAL: Simplifying the DI program reduces improper payments. One of the proposals in the President's budget would change the amount of the offset to a benefit reduction equal to the lesser of the worker's monthly WC benefit or a flat percentage (31 percent) of the Social Security DI benefits payable to the disabled worker and the worker's family. In addition, the offset period would be limited to no longer than 5 years from the worker's first month of entitlement to disability benefits.

The current WC offset provision is a complex aspect of the Social Security DI program, is difficult to administer, and is error-prone. The provision requires us to: 1) base the initial offset on an amount equal to 80 percent of the worker's pre-disability earnings, 2) continually monitor the amount of the ongoing WC payment, 3) apply special rules when adding annual Cost-of-Living-Adjustments to the benefit payable, and 4) redetermine every three years the amount of the pre-disability earnings used in the offset. Due to the complexity of the provision, we devote substantial staff time to reworking cases in which errors were made. This proposal would simplify the administration of the WC offset provision, thus allowing us to use our administrative resources more effectively. These resources could be applied to other pressing workloads at SSA—e.g., conducting Continuing Disability Reviews.

AGENCY EFFORTS TO COLLECT OVERPAYMENTS IN THE OASI, DI AND SSI PROGRAMS

In FY 2008, we collected \$2.81 billion in program debt. We achieve debt collections in a variety of ways that have been developed over the years. Collection techniques include internal methods such as benefit withholding and billing and follow-up. In addition, we use external collection techniques authorized by the *Debt Collection Improvement Act of 1996* (DCIA) for OASDI debts and the *Foster Care Independence Act of 1999* (FCIA) for SSI debts. These debt collection tools include the Treasury Offset Program (TOP), credit bureau reporting, administrative wage garnishment (AWG), and Federal Salary Offset (FSO).

Our strategy for improving our debt collection program is to focus on the techniques that provide direct collections from revenue sources or that can be easily integrated into existing systems. In keeping with this strategy, we have worked steadily over the years to build the strong debt collection program we now employ. We have a history of striving for maximum stewardship of the OASI and DI Trust Funds and the General Fund. In the early 1990s, we launched an expansion of debt collection tools that continues today.

Beyond our internal methods of debt collection which are benefit withholding and billing/follow-up, Table 6 below summarizes the results of key debt management initiatives we have undertaken, followed by a discussion summary of each initiative.

From their inception through September 2008, these initiatives have yielded over \$3.0 billion in benefits through a combination of overpayment recovery and prevention improvements.

Table 6: Results Summary - Debt Management Initiatives (\$ in Billions) Through September 2008

Initiative	Initial Inception	Results		
		OASDI	SSI	TOTAL
Tax Refund Offset/Treasury Offset	1992	\$0.881	\$0.620	\$1.501
Credit Bureau Reporting	1998	\$0.251	\$0.217	\$0.468
Cross Program Recovery	2002	\$0.029	\$0.409	\$0.438
Wage Garnishment	2005	\$0.033	\$0.008	\$0.041
Automatic Netting - SSI	2002	N/A	\$0.596	\$0.596
Total (\$ Billion)		\$1.194	\$1.850	\$3.044

Note: Tax Refund Offset/Treasury Offset includes Federal Salary Offset recoveries.

TAX REFUND OFFSET/TREASURY OFFSET: Taking advantage of the legal authorities granted in the *Omnibus Budget Reconciliation Act of 1990* (for OASDI debts), and the *Deficit Reduction Act of 1984* (for SSI debts), we began an expansion of our debt collection initiatives with the implementation of tax refund offset (TRO) in 1992. We enhanced our TRO program twice in the 1990s and then merged it with TOP in 1998. To date, we have collected over \$1.5 billion in delinquent debt via TRO/TOP.

CREDIT BUREAU REPORTING: In 1998, we began reporting delinquent OASI and DI debts to credit bureaus. After receiving the authority to use credit bureau reporting for SSI debts in 1999, we also began reporting those delinquent debts to the credit repositories. Since 1998, the negative consequences of credit bureau reporting have contributed to the voluntary repayment of over \$468 million in delinquent overpayments by people who do not want to submit to the reporting or to other aggressive collection tools such as TOP and AWG.

CROSS PROGRAM RECOVERY - SSI: After receiving the authority to use mandatory Cross Program Recovery (CPR), or the collection of an SSI overpayment from monthly OASI and DI benefits due the debtor, we developed and implemented this internal collection method. Since 2002, we have collected over \$409 million in SSI overpayments from the Social Security benefits paid each month to the former SSI recipients.

CROSS PROGRAM RECOVERY - OASDI: We received additional authority for CPR in the *Social Security Protection Act of 2004*. We are now able to use mandatory CPR in situations where CPR was not previously permitted. We started using this new authority in January 2005 to collect SSI overpayments from large OASDI underpayments, even when the individual remains eligible for SSI monthly payments. In August 2007, we further expanded the use of CPR to include recovery of OASDI overpayments from SSI underpayments. Since implementing this expanded CPR process, we have recovered over \$29 million in OASDI overpayments. We intend to continue expanding the CPR program to other situations in the future.

ADMINISTRATIVE WAGE GARNISHMENT: We also implemented AWG, a process in which a Federal agency orders an employer to withhold amounts each payday from an employee who owes a debt to the agency, and the employer pays those amounts to the agency. We issued the first garnishment orders in April 2005 to the employers of OASI, DI, and SSI debtors who became delinquent in 2005. We expanded the AWG program to all existing delinquent debtors in August 2006. To date we have recovered over \$41 million in AWG.

NON-ENTITLED DEBTORS: In November 2005, we implemented a new initiative called the Non-Entitled Debtors (NED) program, which was also authorized by the FCIA. This automated system enables us to control recovery activity for debts owed by people for whom we do not have a master record. For example, the records for debtors

such as representative payees who receive overpayments after the death of the beneficiary are controlled in NED. Work is continuing on the expansion of this system, which will eventually include all types of debtors who are not entitled to benefits and will allow us to collect NED debts by means such as TRO, AWG, and FSO.

FEDERAL SALARY OFFSET: In FY 2006, we implemented FSO, which was authorized by the DCIA for OASDI debts, and by the FCIA for SSI debts. FSO is the process whereby the salary paying agency withholds amounts each pay day from an employee of the Federal government who owes a debt to a creditor agency. We use FSO to collect delinquent SSA overpayments owed by Federal employees, including employees who work for SSA.

AUTOMATIC NETTING - SSI: In addition to the preceding improvements, we implemented other debt collection techniques of major import. One such improvement is called “Netting,” an automated process implemented in September 2002 to automatically net SSI overpayments against SSI underpayments. Since implementing automatic netting, we have prevented over \$596 million in overpayments computed and underpayments paid.

OTHER INITIATIVES: We have also helped other Federal agencies with debt collection by collaborating with Treasury’s Financial Management Service and Internal Revenue Service to develop two collection programs for collecting delinquent non-tax and tax debt: (1) The Benefit Payment Offset program, authorized by the DCIA, collects delinquent non-tax debts from Social Security benefits; and (2) the Federal Payment Levy Program, authorized by the *Taxpayer Relief Act of 1997*, collects delinquent tax debts from Social Security benefits.

Continued improvement in our debt collection program is also underway. The future will see the completion of several remaining debt collection tools. They include the use of private collection agencies and administrative fees, interest-charging, or indexing a debt to reflect its current value.

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